

# **The New Rules Capacity Building Report**

The new rules for effective capacity building in the 21<sup>st</sup> century

Draft Version 2.0

By:  
Curtis Brown  
Mission Movers Group

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## Introduction to Document:

I want to take this time to thank all the people and organizations from all over the world from India to Australia to Washington DC who took time to read and give feedback to this document. This new version 2.0 incorporates much of that feedback.

This document while in version 2.0 is still a rough draft (please forgive grammar in some places) that includes a main paper plus detailed reports in the end. The arguments in some areas still need building out and can be better presented. There are also some ideas that are presented in a way to invoke thought. Please respond with helpful input to make this document better. Tough constructive criticism will be deeply appreciated. This document will be overhauled once again once we receive all the additional feedback. This process is much like Web 2.0

To nonprofits who have stories and cases to share please send them to us. We really want to hear from you.

For those reading the document for the second time all the gray shaded content is new.

The information provided in this white paper was carefully researched and is based on more than 20 years of work. It integrates the ideas of some of the very best experts in Organizational Development today. However, we in no way believe that this is the end of the discussion. It is just the beginning. Please visit our website at [www.missionmovers.com](http://www.missionmovers.com) to get more information and to try some of the tools we developed to go with this paper. To contact me directly please send an to <mailto:curtis@missionmovers.com> or call 206-760-1774. Thank you in advance

# Non-Profit Capacity Building That Works: A New Approach

By Curtis Brown, M.B.A.  
Mission Movers Group

## Executive Summary

### Capacity Building

This report provides a new, highly effective approach to capacity building within the non-profit sector. The term “capacity building” is commonly used in organizational development literature to refer to a process that maximizes an organization’s growth and effectiveness. For the purposes of this paper, capacity building is defined as *“The process of focusing all energy on what really moves the mission, building internal and external momentum around it, and intentionally stopping any activity that does not contribute significantly to positive returns on investment (ROI).”*

### A New Approach to Non-Profit Capacity Building

To get a clear picture of the results of capacity building in today’s non-profit sector, one must ask a few simple questions: Have dropout rates changed? Are families stronger? Has the number of homeless decreased? Is drug-use diminishing? Are inner-urban communities less violent? The answers to these questions are no, which clearly indicate efforts to increase capacity within the sector are failing at worst and underachieving at best. Why is it that the progress gained in capacity building compared to the time and money spent on capacity building has not yielded the expected results? A new approach to non-profit capacity building is needed.

After reviewing the performance of more than 500 non-profit organizations, the Mission Movers Group made a series of groundbreaking observations which form the foundation of a new, highly effective approach to capacity building in the non-profit sector.

The observations coalesced in the overarching conclusion that the conventional view of non-profit capacity building includes three major erroneous assumptions: that limited funding limits capacity building; that effective programming solves community problems; and that traditional strategic planning creates a continuum of programs that automatically build capacity. Additionally, the observations led to ten key reasons why most non profit organizations operate below maximum capacity. Additionally, three key success factors on which high-performing non-profits focus to improve their organizations were identified.

The new approach to capacity building presented in this report is based on three challenges to the current thinking about capacity building:

- 1) Asset Allocation versus “Funding Determinism”
- 2) Community Building versus Problem Solving
- 3) Diagnostic and Action-based Model Planning versus Traditional Strategic Planning

### I. Asset Allocation vs. Funding Determinism

Asset allocation is *“the process of focusing all of your energy on what really moves your mission.”* Most organizations have a “funding determinism” mindset that says, “If we had more money, we could do more.” In contrast, the “asset allocation” mindset asks, “How can we re-allocate existing resources internally or externally, within our agency, and among other agencies, to make something greater?”

Many organizations must *“intentionally stop any activity that does not contribute significantly to positive returns on investment (ROI).”* Every organization has programs and departments that

drain resources. Many of these programs or departments have been around for years and are based on incorrect assumptions about the clientele or their possible needs. Eliminating activities is very difficult for non-profits. Nevertheless, these programs that do not move the mission of the organization should be cut or reduced. Focusing energy on asset allocation help will help the capacity building effort grow.

## **II. Community Building vs. Problem Solving**

Capacity building is primarily about building community. To build capacity, a nonprofit organization needs to focus on building community.

**For-profit businesses like Starbucks, Lego and Costco build community to create profit.** Sports teams build community to support the team and build momentum to win. Religious institutions build community to more effectively win converts. A political party creates community to influence votes. Likewise, the non-profit organization must direct its energy toward building community in order to build capacity.

Capacity building often fails because the non-profit organization does not understand what it is working toward. Previously mentioned institutions clearly understand their goals: profit, winning, converts, votes. Non-profits often incorrectly assume that “solving the problem” is what they should be working toward – it is not. The end goal for every non-profit is to create a stronger community that solves its own problems. The community then leads and implements the needed solutions and the non-profit plays the role of conduit for transformation. Focusing energy on community building will help the capacity of the organization grow.

## **III. Diagnostic and Action-Based Planning vs. Traditional Strategic Planning**

Knowing your organization’s strategy, and how to achieve it, is critical for success, which is why strategic planning efforts are so important. However, many organizations spend all their energy, time and resources planning programs, instead of implementing what works. Most non-profit organizations use traditional strategic planning models that start with a dream picture of what is to be, and then work backwards developing a list of actions, inputs, resources and partners necessary to complete the mosaic. This looks great on paper, but the plan rarely moves beyond a written document and into effective action.

In contrast to the traditional approaches of strategic planning, diagnostic and action-based planning, uses Strategy Maps and Process Improvement Tools to create a picture of the present reality for the organization, programs and other groups in the same sector and focuses on 12 month objectives and strategies.

## **Conclusion**

While capacity building has been a focus and desire of non-profits for decades, most non-profits are not successful in their capacity building efforts.

The innovative approaches laid out in this paper are well-tested and proven to be of unprecedented success. The challenges to current thinking and the alternatives identified in this report are based on a compilation of experience and analysis by Mission Movers over the last five years. More than 500 nonprofits were reviewed; case studies analyzed; and reports and books from top practitioners and university staff in the industry were reviewed in the development of these ideas.

This paper sets forth a new approach to capacity building for non profit organizations that is simple and highly effective.

# Non-Profit Capacity Building That Works: A New Approach

By Curtis Brown, M.B.A.

Mission Movers Group

*“Good is the enemy of great. And that is one of the key reasons why we have so little that becomes great.*

*We don’t have great schools, principally because we have good schools. We don’t have great government, principally because we have good government. Few people attain great lives, in large part because it is just so easy to settle for a good life. The vast majority of organizations never become great, precisely because the vast majority become quite good—and that is the main problem.”*

~ Jim Collins, Good to Great

## Introduction

Blaming a “lack of resources” for a lack of progress is a common refrain in the non profit sector. There is no doubt that most nonprofit organizations can be more effective, and the current thinking in organizational development points to capacity building as an answer.

However, the progress gained in capacity building by the non-profit sector compared to the time and money spent more often than not fails to achieve the expected results. In other words, capacity building underachieves. Some may challenge this point. And yet, to measure the effectiveness of non-profit organizations across the board, one needs only to ask: Has the dropout rate changed? Are families stronger? Has the number of homeless decreased? Is drug-use down? Are our communities less violent? The answers to these, and other questions is no.

Clearly, new ways of thinking about capacity building is needed. The concepts of Venture Philanthropy, Social Enterprise and SROI, among others, are significant and provide insights that help start the conversation from new frames of reference. While each concept brings a valuable voice to the table, each concept also has its shortcomings and operates like an “ideology.”

Venture Philanthropy fails because it uses incorrect metrics to evaluate organizations, and success in social investing has been just as ineffective as traditional giving. Also, the focus on “hyper” scale will have the same devastating impact that the concept had on the for-profit sector during the dot.com bubble. Its concept of program scale and replication go against the concept of community building that we will discuss in detail more later.

Social Enterprise has pushed nonprofits to look at other revenue stream options, which is good, but the thrust of starting a “business” keeps it from looking at the erroneous assumptions that lie at the core of most underachieving capacity building efforts. (Honestly, most nonprofits should not be starting a business.)

SROI is just too theoretical and easy to manipulate to have any pragmatic contribution toward building capacity. The concept is also problematic because agencies don't work within a vacuum. Any client kept out of jail will "not reduce public expenditures by \$30,000 that year." Public systems will argue for funding no matter what the nonprofit impact. There are many other examples, but for the sake of brevity, these concepts have been great in starting the conversation, but do not get to the real capacity issues facing the sector.

Available reports on capacity building often insinuate that the problem is no more than a lack of resources. That if agencies are provided with more resources and better training, everything will improve. If anything, the opposite may be true. By providing agencies with funds to hire development directors or consultants or to buy the newest donor management tool, we allow them to take their focus off the real issues facing their organization.

Our conclusions about capacity building are based on a mix of research analyzing all types of organizations through our own work with over 500 nonprofits, plus case studies and books from the top practitioners and university staff. We took a different approach than those before us. Up to this point, capacity building has analyzed nonprofits as a separate sector rather than compared to others, or by new groups analyzing for-profits and trying to transfer the "better" sector's best practice to the "lesser" sector. In our work with for-profits, nonprofits and religious institutions, we have never seen a real difference other than tax status and levels of accountability. In the end, exceptional organizations have all the same three primary success factors.

This report begins with a definition of capacity building, then explores eight reasons why capacity building efforts, across the board, are underachieving. We then propose at a new, highly effective model and process for developing capacity building.

### **What is Capacity Building?**

A search for a definition of capacity building yields many results. The most prevalent is "the ability of nonprofit organizations to fulfill their missions in a more effective manner."

Determining an organization's capacity-building needs is not a simple or clear-cut process, in part, because no one has established what characteristics actually make an effective organization (Light 2000). The existing literature provides no easy formula for building organizational capacity or achieving favorable outcomes. (Urban Institute, pg16)

We believe there is a simple, but painful, process that organizations can follow which is both effective and sustainable. That process is based on our own definition of capacity building, but before we share our view of what it is, let us share our view of what it is not.

Capacity building is not rocket science. It is not an easy process and it is not accomplished without deep research, but it is not complicated. Capacity building is also not an exercise in creating a mind numbing 20-page document full of mission and vision statements, goals and objectives, statistics and environmental information and a list of action steps and priorities that obscures the over-all strategy and puts the reader to sleep. **Organizations need to make a commitment to avoid long-winded plans and focus on creating an effective, strategic one to five-page documents.**

This new radical approach to capacity building begins with the following definition:

***"Capacity building is the process of focusing all your energy in on what "really" moves your mission, building internal and external momentum around it, AND intentionally***

***stopping any activity that does not contribute significantly to positive returns on investment (ROI).”***

***A new more simple definition of capacity building or outcome of the process we like is:***

***“Every process or strategy change increases the amount of outcomes per every dollar spent.”***

### **Why Capacity Building Underachieves**

A thick book could be written to examine why nonprofit capacity building is missing the mark. This isn't a new topic – there are already dozens of books discussing why for-profit capacity building fails. This is not only a nonprofit issue. Many in the nonprofit sector think that because “smart” for-profit people come in to tell them how to “better” operate their nonprofit, they have to listen. Our company consults with for-profit organizations and we can tell you they have nothing on nonprofits in the way of “being smarter.”

The classic research done by Collins, Drucker, Kim, and others indicates that all organizations face difficulty in creating capacity. One Director of a university business school commented to me during one of my conference presentations that “the issues you bring up are the same for the small businesses we work with.” While the issues that keep nonprofits and for-profits underperforming are similar, the way they are framed are very different.

The following are THE 10 fundamental reasons why most nonprofit organizations operate below maximum capacity:

#### **1. The United States Scarcity Mentality**

In version 1.0 of this report the scarcity mentality did not make the list. What happened and how did this skyrocket to the top? It's been interesting since the first draft to find out through this global feedback process that I would find the best run nonprofits in India and Bangladesh. I did not expect this, but after the fact it makes sense. At first thought, one would think that in our culture of abundance that quality management would be a given and that in areas of scarcity that the inverse would be true. However, when listening to groups from Ankora or Byrraju you realize that every dollar is so precious and needs to be used to the fullest while in America the abundance of the dollar makes ROI too “capitalist” based and this is what got us in this poverty mess in the first place. In the end, the culture of abundance with a scarcity mindset (we don't have enough resources) is destroying our nonprofits because evaluation is something from above or not really needed. Yet it's groups that live in economic scarcity create an abundance mindset (we will maximize and grow what we have) and this makes evaluation a critical part of program. When you look at how they evaluate each step of every program you see the impact of not expecting more resources.

We cannot underestimate the “scarcity” mindset as a key factor in evaluating nonprofits and their ability to create change. The mentality of never having enough to do the job puts the fault everywhere else except the nonprofit itself, thus causing nonprofit capacity building to focus on how to get more. Read #4 of this list for further discussion.

#### **2. They make incorrect assumptions.**

Most capacity enhancement efforts, from program creation to fund development, fall short because the base assumptions are wrong.



One reason incorrect assumptions are made is because causal relationships are misdiagnosed. There is truly a deficit in causal relationship understanding by nonprofits, including consultants. One continually misdiagnosed causal relationship is the increase in funding to board development. In a recent study by a Social Venture group, there were a number of references to a better board creating better funding. There are a number of critical errors in this conventional thought. First, I can show you more organizations that have increased revenue while the board did not change, or in some cases the board became less effective. The biggest gain in revenue I saw in 20 years came from a west coast shelter that had a terrible board. Revenues were sluggish. Who did the ED call? A board development consultant? No, he called a direct mail specialist. Within six months the ED was commenting to me that he was now getting more money than his budget needed. Should we assume then that keeping a board weak and turning to direct mail is an answer? No! In both cases the issue was neither board development nor hiring a direct mail consultant. Both cases were about having a mobilization plan and executing it.

This leads to another point: Assumptions stay incorrect when causal relationships are evaluated without comparative numbers. The lack of comparative numbers tends to be the number one reason why, even when metrics are used, the assumptions are wrong. Numbers are only accurate when they are analyzed and evaluated in the proper context.

The board serves an important function because good governance is beneficial. It creates trust and makes people feel more at ease about investing in the organization. Does a good board provide significant, positive returns on investment? No. There is no causal data in any sector, nonprofit or for-profit, to sustain the current conventional wisdom.

In addition, we see all types of program assumptions that are just plain incorrect. One homeless agency just finished doing research on its lunch program that it had been doing for 20 years and was shocked to find the clients say they derived little benefit from the lunch program. A (grocery store) food co-op was allocating a majority of its marketing dollars on issues they thought resonated with their customers and believed would increase customer spending. But they discovered their assumptions were completely wrong. The examples are plentiful, but the main point is executing a plan is meaningless if the very core assumption it is based upon is incorrect.

#### **More Bad Assumptions:**

**Leaky Pipes-** There have been many dire predictions that the next world war would be fought not over oil, but water rights. Many reports indicate that without expensive water projects like dams the world is headed toward disaster. A recent study out shows that simply fixing the world's leaky pipes will provide more than enough water at a fraction of the cost.

**Pay Day loans-** I have always believed that these type of companies take huge resources from communities and give nothing in return. One day I was speaking on this and a colleague called me on the carpet and said she used them. She said 'if I am short money for the month will the bank make a \$300 loan? – No" She went on to say "banks charge more interest because if you calculate overage fees the cash checkers are cheaper." She concluded with: "everyone at the cash checking place knows me by my name and the customer service is great." According to my colleague's experience, they are building community. I stood corrected.

**Corporate Middle Manager-** One day I was telling a major corporation middle manager how I work with nonprofits to get quality metrics to improve outcomes. He laughed and said, "What a waste of time." All of my managers and me are sick of collecting metrics...we never do anything with them and it takes up time.... Metrics are a waste." I said, "Tom you can't be serious...do you think Amazon today would be the great company that it is without collecting all those metrics on its users?" He responded by saying "those type of metrics that Amazon collects would be great to have." So I said "the problem you have is not with metrics but with the type of metrics that are used. They're not to help you get your staff cut by upper management...asking employees for metrics to get themselves laid off are stupid. Having good metrics that help you do better everyone wants." Tom said, "you are right but that will never happen where I work." I finished by saying "your problem is not with metrics it's with the idiots in upper management. He just nodded and smiled.

### **3. They think of themselves as problem solvers.**

The mission of Starbucks is to “provide an inexpensive luxury in a community setting,” but the end game is profit. That’s because the goal of a for-profit company is to build community in order to create profit. The goal of a sports team is to build community to win. The goal of a religious institution is to build community to win converts. Like its counterparts, the goal of a nonprofit is to build community to solve a problem. *The end goal of a nonprofit is NOT to solve the problem directly.*

The end goal for every nonprofit is to create a stronger community that solves its own problems. Think about what Bill Gates is trying to do. Is he trying to solve world health issues or is he building an infrastructure where people share information with researchers, community doctors, governments and aid organizations to collectively come together to solve the issues? Gates’ success will depend on how effective he is in creating community, not how much money he throws at the issues.

Capacity building fails because the nonprofit community does not completely understand what they are working toward. Other institutions know what they are working toward: profit, votes, winning, converts. Nonprofits have incorrectly assumed that solving the problem is what they are working towards – it’s not. The problem (mission) attracts people to the organization, but the end game is community empowered to solve its own problems. There is nothing like a large, active, volunteer base with low turnover that is active in a community to ensure the quality of a program. Effective organizations create community to move their own successes.

### **4. They believe more funding is better.**

Many organizations suffer from the “If I only had” syndrome, also known as the “funding determinism” mindset, and remain stagnant because they are unwilling to refocus their energy and make the necessary cuts.

Capacity building in these organizations fails because it is based on the erroneous “growth” assumption that to do more you need to increase inputs first: more resources mean more outcomes. Since this model can work and has worked in the past, failure to build capacity is often seen as a failure to execute (lack of knowledge or experience). Or it is viewed as having a lack of sufficient inputs to make the planned change.

Our research shows that capacity building best occurs in an environment where financial inputs are reduced, forcing the organization to make tough asset allocation decisions and in turn make the agency focus its capital where it produces the most impact. This focus produces a better-run program and, many times, a better-run organization. In addition, this model creates an environment for more collaboration where agencies focus on what they do best.

The nonprofit sector’s confusion between growth and capacity building is a key reason the sector lags behind the for-profit sector in adopting innovation. Seeing capacity building as merely the process of increased inputs creating an equal increase in outputs has stunted the sector’s upward organizational development movement. *While growth is a form of capacity building it is just short-term in nature and will fall apart if other forms of capacity building are not used.* We will discuss this further in more depth later.

Capacity building must be seen as a better way to allocate resources, with metrics as a determining point for program focus. Capacity building exists when better allocation leads to exponential, not one-to-one, growth in return on inputs.

Does this model actually assume that it would build more capacity for a foundation to ask for money than give it? Without metrics to test this, it can’t be answered. However, through

researching organizations it is clear that when organizations go through tough times, the changes made help the organization grow faster with fewer resources as things turn around. Also, when organizations cut programs and focus on what they do best, exponential results occur. Of course it would only be fair to note that some organizations fold under this pressure of reduced capital.

Many organizations, because of the “funding determinism” mindset, remain stagnant because they are unwilling to refocus their energy and make the necessary cuts.

One of our favorite case studies in our first report New Nonprofit Rules (can be downloaded for free from our website) is about SPD, a nonprofit that provided reading resources, book publishing and a few other services.

Let’s look at another organization and the results they had because they were able to identify and focus on the niche where they can be the best. SPD is a literary organization that did three things: provided wholesale distribution services to literary presses; held public programs including readings and panel discussions; and ran a retail store to serve the local community. The board struggled with capacity development for years, and finally began an in-depth assessment of all of its programs.

When they began the evaluation, there were five full-time staff members, a part-time program director, and a handful of interns and work-study students from local colleges. The program director organized SPD's series of public programs. The programs were held in SPD's retail store that occupied a quarter of the facility. Staff rotated working in the store on Saturdays. The retail store generated around \$2,000 per month in sales to individuals. More importantly, it provided the local community with hands-on access to some 7,000 books of poetry, fiction and cultural studies that could not be found in most other stores.

This intensive self-evaluation was eye opening. When the board came back together, after two months, to report on its work, one program area clearly rose as a priority. The organization learned that its book distribution activities subsidized both the retail store and the public programs, which were often undistinguishable from many other literary programs. However, because the organization is providing three distinct services, its resources were spread too thin to excel at any one of them. Although SPD is unique in providing wholesaling services to literary presses regardless of a book's sales potential, they learned that the quality of service they provided to publishers, as well as customers, was inferior to that provided by commercial wholesalers. So, the evaluation revealed that book distribution was the key service SPD could provide to the community, but it needed to focus its resources there in order to truly be the best.

With a renewed commitment to distribution, the board decided to suspend all other programs. The next year would be spent focusing on and investing in their distribution program.

Two years later SPD has a facility twice as big as its previous home. They have added three new staff positions and five board members. Their operating budget has grown by 49%, earned income has grown by 38% and contributed income has grown by 300%. The facilities project became a catalyst for organizational development and capacity building. Now, they're beyond happy - they're exploding with enthusiasm and optimism.

To niche thyself is not an end in itself. But growth numbers of 49%, 38% and 300% could not have been possible if SPD had not first focused on what they

could do best. Ridding themselves of programs that were not effective, and that others were doing better, allowed them to focus on what SPD does well. And by doing so they became the best at one part of literature distribution and made substantially more impact.

Of course we are not implying that simply cutting programs will create capacity. However, when studying organizations from all sectors, a trait they all have is the ability to focus. With its \$50 billion in assets, Microsoft could do anything it wants, but the organization stays focused on its core products. Likewise, Starbucks, which can afford television advertising, does not see TV ads as a significant booster of revenue. The key word that is left out of capacity building is “significant.” It needs to be emphasized that if a process does not have a *significant* impact then it should be avoided. It’s critical to note that this is not done for financial or business reasons, it’s done in order to better service clients. More is less and less is more.

### **5. They reward the wrong type of leader.**

While there may not be a causal relationship between capacity building and board development, there certainly is one between the type of leadership and the impact an organization has. Foundations, corporations and major donors focus their wealth on the nonprofit CEO that gets things done. Our culture is obsessed with “can do” people. We love people who tell us what they are going to do, and then go do it.

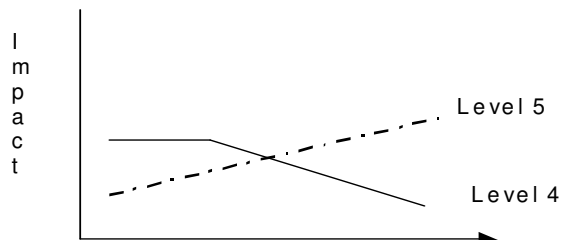
Everyday I read articles about great social leaders in nonprofits that are single handedly taking on the “system” and making real change where people before them could not. These are level 4 leaders who will make things happen no matter who gets trampled in their path.

In Good to Great, Jim Collins defined the Level 4 leader as someone who put their own needs first and saw everyone else in the organization as a helper. In contrast, the Level 5 leader put the organization above personal needs and saw employees as team members to empower.

What is a Level 5 leader in the nonprofit? It’s an interesting question because Level 4 leaders run most large, “effective” nonprofits. The Level 4 leader is someone who gets funded by the foundations and corporations because they solve problems and get stuff done. They can point to all the activities that the organization has done and the growth since they have taken over. They are incredibly effective in developing successful programs and doing better than most other groups in the sector.

What is wrong with that? There is nothing wrong with successful programs, but the sad part of the Level 4 leader is that they eat through staff and the impact of the organization is only powerful while they are there. Once this leader leaves, the community has been plowed through; quality staff burned out and people left were not given the infrastructure to continue the process.

The nonprofit Level 5 leader puts creating community impact and mobilization over solving the problem or creating organizational growth. The community’s needs exceed both the organization’s cash flow needs and the ego of the nonprofit CEO. Knowing this is critical to the mission of the organization. The nonprofit growth paradox is detailed in the graph below.



It seems counter-intuitive that the people who get things done are the problem. It is easy to understand how, in a world of inaction, why foundations have been attracted to Level 4 leaders. They are charismatic, make things happen and they make your annual report look good. The bigger problem though, is that they don't bring lasting change. This highly capable group that is "Good" has kept the organization and the surrounding people/community from becoming Great. Is the organization doing more or the same after they leave?

In a nonprofit sector that is dominated by Level 3 leaders that just try to hang on and get as much done as possible, the Level 4 leader looks very attractive.

Level 4 leaders also move toward average boards they can control. Level 4 leaders like to challenge but do not like to be challenged themselves. They are great at giving feedback, but lousy at receiving it. They have difficulty working with others who are high performing. As Collins points out, these are "smart people with a thousand helpers."

The transformation of communities is dependent upon investing in Level 5 leaders who choose mobilizing long-term infrastructure change over short-term activist results.

## 6. They fail to integrate related programs.

When analyzing most nonprofits we see a non-focused list of services that have goals and objects and may even be executed well. However, these programs work independent of each other and see no real reason to work closely together.

What do we mean by this? A recent client, an arts agency, ran four programs in the community. Each art program had its own planning process and leadership. Individually, each did good work. For reporting purposes, the executive director would list all four programs on a single sheet of paper to show the unity. But that was where the relationship ended. Because the programs were not integrated, their individual impact on the community was limited. Each program had little, if any, growth and was always in survival mode.

We took the agency through a brief process that created an integrated strategy we like to call a "singularity" of program focus. Each program, although doing different activities, now focused on creating one outcome – a planned season of art activities, funded through a family membership drive. Each program, which had previously determined its own schedule, would now work with the other programs to create "the planned season." This planned season would incorporate plays for kids to participate in, plays for the whole family to attend, and special arts events for which members received special invitations and privileges.

Previously, the arts planning commission decided what project would be best for the area. Now the art commission focuses on how to get more members and spends its time getting feedback to make membership more meaningful to families. In this case, the singularity of programming, or

“planned season” builds capacity by attracting members, increasing resources, and allowing for even better programming.

For nonprofits to be successful, just the act of “doing programs” won’t work. Even having a great evaluation process that allows for effective program adjustments will fall short. Organizations need to be able to organize their programs so the integrated outcome is greater than the individual parts. This can only be achieved through strategizing asset allocation, putting diagnostic and action-based plans into action, and weaving them together in a singularity of operation.

A key benefit of singularity is that it sets the organization up for better marketability. Once capacity is built, it is maintained by a marketing mindset rather than a fundraising mindset.

### **7. They focus on the internal and forget the external.**

The great productivity gains of this century make it possible for me to integrate my operations with other organizations and yet keep complete independence. For the longest time, profits for Intel (the world’s leading chip maker) would swing up and down based on supply and demand of consumers, or the availability of vendor supply. With the advent of the Internet, Intel now requires its vendors to allow Intel to track the vendor’s inventory. Intel wants to know the second their supply chain is going to be affected. And they want to know from retailers if the products, using their chips, are slowing in sales so they can reduce production. Other companies, like Wal-Mart, practice the same thing.

Managing companies that supply you, or you supply, is part of everyday capacity building because both inputs and outputs influence an organization’s growth. It is normal business practice to let vendors or retailers know they are not meeting standards and are at risk of losing business. However, in the nonprofit sector I continually hear comments from clients how the clients are not prepared for their program or that after a client graduates to another program, the next level is insufficient. They complain how other agencies are just settling to be average.

When focusing on the external becomes a key organizational focus new possibilities arise. The focus on the external can also bring into play the concepts of partnerships, mergers and Workouts. These tools get organizations to see themselves as part of a larger ecosystem where results are seen as long-term infrastructure changes that can only happen when multiple parties with multiple well defined skills and resources work together as ONE. The Workout tool used by some of the top organizations to create innovative solutions will be discussed more in depth later in version 3.0.

Having Level 5 leaders on board is important because the Level 5 leaders will leave the office and work to empower other organizations to be great partners or create the merger that needs to happen. They will help other groups be better and find needed resources. They will also focus on other agency management and program issues to ensure that the organization is meeting its performance promises. And they will search for other partners if necessary.

### **8. They are stuck in a single frame .**

When an organization is stuck in a single frame, it sees only one way of doing things or solving a problem. A failure to ask challenging questions, and a lack of willingness to step outside the comfort zone keep organizations stuck in a single frame. Nonprofit organizations must learn how to reframe a perceived problem, as well as the organization’s own self-concept to generate the multiple possibilities that lead ultimately to successful capacity building.

The premiere 21<sup>st</sup> century organizations will look like Kiva (will be discussed in depth later). Kiva breaks so many conventional wisdom rules that we will only attempt to mention a few. First, they

turn the donor pyramid upside down. Small donors/loaners make the biggest level of givers. In Kiva's model, major donors are important, but not to the exclusion of small donors. Second, Kiva gives you direct contact to the client and need I say more on that counter-conventional thought. Third, they freely allow you to use their logo. This organization puts what's at stake over what's at risk. Kiva breaks all the rules of engagement that the nonprofit sector has set up. They are breaking down the barriers between donors and clients. To learn more about Kiva's model, download our Kiva case study at [www.missionmovers.com](http://www.missionmovers.com).

While Kiva, Donor Choose and other revolutionary nonprofits are changing the framework in which programs are executed, most nonprofits are stuck in the same old conventional wisdom that is risk adverse and control oriented. The consumer and technological revolution, along with the positives of globalization, are demanding new models. And unfortunately, many in the nonprofit sector have missed the new paradigm.

When we tackled the health care situation for a childcare consortium instead of asking how we could find the best plan we asked how can we get the best coverage possible without increasing the budget and seeing if it possible to have healthy employees pay no health care costs in a year. By framing the question in a different light, we created a high deductible insurance plan with a flexible spending account utilizing a debit card process. Each employee could use the debit card through the FSA to pay co-pays and initial bill at 100%. If the person were healthy for the year with a few doctor visits then they would pay nothing. If they had a bad year then they would pay what they would have anyway. This way savings went to the employee and the nonprofit, rather than to the insurance company.

#### **9. They Fail to Differentiate Between Knowledge-Based and System-Based Deliverables.**

When looking at funding options, foundations need to know if the issue they are funding is system-based or knowledge-worker based. Not knowing the difference will produce poor results even if you pour a massive amount of capital at the issue.

During a recent interview on the Charlie Rose show, Bill Gates was discussing how the Gates Foundation is looking to find model schools and replicate them in other areas of the country. I wanted to jump out of my seat, grab him through the TV, shake him and say, "You will not find model schools for replication. What you will find are great teams!" Gates and his cohorts at Microsoft put millions into staff recruitment every year. Potential Microsoft employees go through an intensive interview process. He knows Microsoft can only go as far as its people. It boggles my mind that he doesn't see the same principle applying in the educational world.

How could the Gates Foundation revolutionize the delivery of vaccinations to the underdeveloped nations of the world and yet not see what would most impact education in the U.S.? How can an organization that has saved millions of lives miss this critical success factor? The answer is quite simple. It's one you must recognize. Some services are system-based and some are knowledge/community-based. Delivering vaccines is not dependent upon knowledge workers. It is dependent on having the most efficient system for moving vaccines from point A to point B, developing a protocol for administering the vaccine, and training people to follow the protocol. You develop a system and put well-trained people in place to follow the protocol and it works. And it works even better when you have community-based programs to plug into.

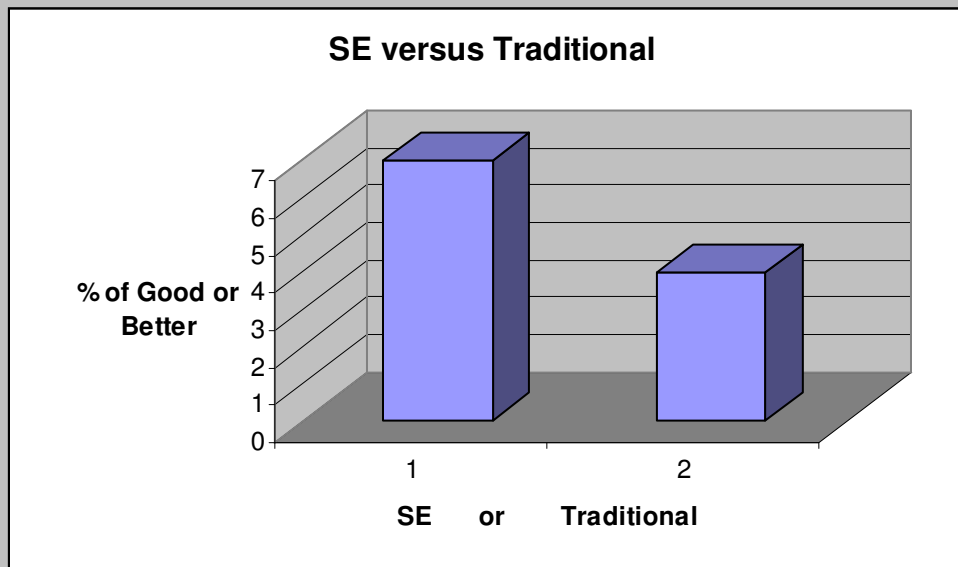
Education is not like delivering vaccines. The education of children is knowledge-based. Teachers can't rely on some system for kids to be taught, but must themselves deliver their knowledge to the kids. In the end, it is great teams that make great schools – independent of whether the school is a charter school, a public school or a private institution. It's all about putting the best people in place to teach our youth. If the Gates Foundation wants to impact education, it needs to focus on developing a teacher recruitment and continuing education program that is designed for teams who work with at-risk youth. They need to focus on getting the right people

teaching kids, create the right incentives and offer salaries that will attract and retain great teachers!

#### 10. They Focus Too Much on Outcomes

I can hear you now say “is Curtis crazy?... It’s all about outcomes.” You would be right to say that it is all about outcomes, but to get to great outcomes you must put 90% of your energy focused on the inputs that drive outcomes. This is what we call “input drivers.”

Why do we have concerns about outcome focus? During our research we started to notice that organizations that referred to themselves as social enterprises were 7 out of 10 times likely to be evaluated as good or better by our standards. When looking at the data from traditional nonprofits models we saw 4 out of 10 nonprofits that could be rated as good or better.



The bar chart is pretty compelling and is one of the main reasons for the rise of the social enterprise movement. Even without research it seems like SE organizations are stealing the press with their innovative approaches and compelling outcomes. At times, even I have been swept away by the hype. The problem with outcome based evaluation is that one looks at this bar graph and comes to the evaluative conclusion that SE orgs are almost twice as likely to have a higher ROI. So what we see today is foundations and social venture investments in social enterprise being hailed as the new way of doing philanthropy.

However, if you take an input perspective on the data, a completely different conclusion occurs. When you take a look at the inputs of both the SE and the traditional approach, we see that it’s not the use of multiple revenues streams, the use of the free markets, or even the use of business concepts that gave SE orgs the stronger ROI. What made good organizations in both sectors was a commitment to using data as the primary decision maker, investment of resources in actions that produce the highest return and the ability to bring large groups accepting the idea to ensure success. It’s clear that those who have the SE mindset are more likely to value client participation, data for decisions and strong highly capable partnerships thus SE nonprofits perform at a higher level on AVERAGE. It is also clear that traditional nonprofits that focus on these factors have equal if not greater success.



What this research highlights is that looking at outcomes without a complete understanding of the inputs creates more critical problems that hurt capacity building. We are seeing a lot of scaling of so called “effective models” due to good outcomes that when replicated fail miserably because we never knew “why” they worked. Please read “It’s the Inputs, Dummy” section in the back of this report.

### Summary of Problems with Capacity Building

These 10 reasons provide valuable insight into why most non profit organizations operate below maximum capacity, but they are just the tip of the iceberg. The list compiled in this report is not exhaustive, but it starts the conversation. To summarize, here are the 10 main reasons most nonprofits fail at capacity building:

- 1) They have a scarcity mentality.
- 2) They make incorrect assumptions and fail to know what actually works.
- 3) They think of themselves as problem solvers instead of conduits.
- 4) They believe that lack of funding is why they fall short in reaching goals.
- 5) Foundations and companies reward the wrong type of leaders.
- 6) They fail to integrate related programs into a single cohesive strategy.
- 7) They focus on the internal and forget the external.
- 8) They are stuck in a single frame that fails to position the organization for success.
- 9) They fail to differentiate between knowledge-based and system-based deliverables.
- 10) They focus on Outcomes not HIGH IMPACT INPUT DRIVERS to get to great outcomes.

### What Defines a Great Organization

Let’s put another myth or urban legend to rest. There is no for-profit versus nonprofit distinction. There are good organizations and average organizations and sad to say poor ones. The distinction is not only useless it may actually keep the “old School” and the “new School” from getting to the real truth of what makes a social organizations excel. Nobody can tell me there is a difference between the quality of organizational leadership between Muhammad Yunnus of the Grameen Bank or Jack Welch of GE. If one studies the principles and process that both Welch and Yunnus used you will find little difference. Were they the same in temperament? No, but both demanded that their organization ran with quality to customer/client needs, know the facts (not assume) about the needs, (you will not get caught in bureaucracy but destroy it) hire the right people, delegate authority, have a great feedback loop and so on. While in no way would you think of them as the same men or sharing similar goals, the way they caused their organizations to thrive is so similar it’s scary. (Welch may have used financial reward and a few more scare tactics, but that’s about it.)

The comparison is critical because until we get past this “be like the for-profit sector” stupidity we can’t get to the real issues on nonprofit capacity building. And the real issue is getting organizations to focus in Input Drivers and NOT Outputs/Outcomes. Great organizations achieve great outcomes by focusing their energy on great inputs – avoiding the popular adage “garbage in garbage out.”

Organizations of excellence create a low (minimizes) input model/process that brings forth huge returns to the community and see huge energy go through the thin, but broadband capable nonprofit. These organizations have a proven statistical based strategy that is best in class and is the benchmark for all organizations in the sector. It creates a process that mobilizes whole communities to own the issues and be the primary stakeholder. They have a rigorous human resources plan (Teach for America is a good example) that hires only specific individuals that can thrive in the specific environment and see volunteer activities as “non-paid staff” positions that have high expectations and equally rigorous evaluations. This process is designed with a balance of efficiency and maximizes variations in viewpoints while excluding only factions that won’t work

toward the collective good. These organizations find ways to integrate diverse viewpoints into a singularity of energy stream where everyone feels heard and part of the ownership team.

The high impact nonprofits from all around the world have one thing in common: they create community based infrastructures with fact-driven input drivers that produce long-term results far superior to their comparable organizations. These cultures attract and sustain a certain type of employee that puts mission over agenda and self-importance to create results that transcend “helping” to facilitating “client-centered” social change.

### **The Triangle of Capacity Building – A New Model to Create Organizations of Excellence**

#### **How Capacity Building Happens**

There are basically three ways organizations of any type can increase capacity: 1) create or adapt strategy (innovation) 2) refine processes or 3) increase input resources. It is number three that 90% of nonprofit effort goes, but it is the least effective in creating long-term capacity.

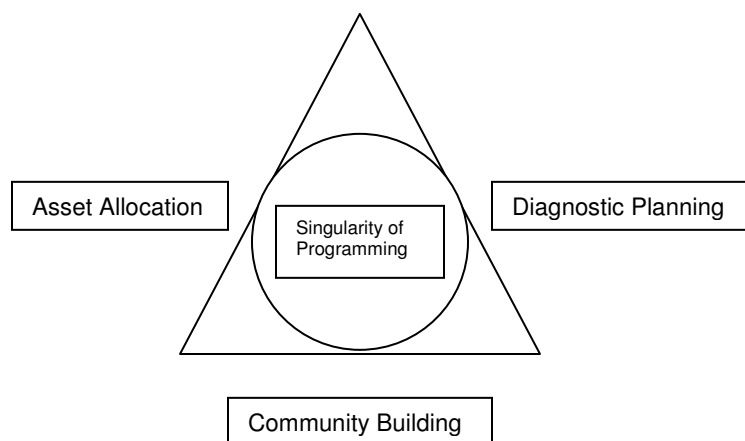
The new model described in this paper focuses its energy on the first two of the aforementioned three options.

The visual model below shows how the basic components of our new approach to capacity building relate to one another.

The three primary components are:

- 1) the effective allocation of assets and resources
- 2) an effective, diagnostic and action-based planning process that takes a clear and often painful picture of the present reality
- 3) building a community that is empowered to meet its own challenges

The community is the foundation of the entire process, as explained below. Finally, all three components have a common focus, which we refer to as “singularity of programming,” that keeps the energy of the organization focused and leveraged.



Each component of the model is described below.

## I. Asset Allocation

Asset allocation is *“the process of focusing all of your energy on what really moves your mission.”* In contrast, an organization with the “funding determinism” mindset says, “If we had more money we could do more.”

Most organizations are stuck in the “funding determinism” mindset. Also known as “environmental determinism.” This mindset believes it is society’s responsibility to see the value in the organization, and the organization’s failure to achieve is seen as society’s “failure to support.” This mindset sets organizations up for failure.

In contrast, the “Asset Allocation” mindset organization asks, “How can we re-allocate existing resources internally or externally within our agency, and among other agencies, to make something greater?” These organizations position people and resources for success to create value, and this value attracts more people to the organization. Lack of funding is seen as an internal problem that needs correction through better allocation of resources and execution. The chart below provides a brief, descriptive comparison of the two different mindsets.

The “Funding Determinism” Mindset	The “Asset Allocation” Mindset
Prioritizes agency’s needs.	Prioritizes the needs of the community with the needs of the agency.
Builds coalitions that invite everyone to the table.	Builds alliances of others that are aligned with the organization’s value system. Does not work with everyone.
Drives innovation through grants.	Drives innovation by moving resources into singularity and seeks grants only for growth of proven strategy.
Takes action alone with minimal partnerships.	Takes action through large scale delegation internally and outside collaboration.
Delivers services for <b>oppressed people</b>	Delivers services through client participation and requires some fee for service.
Finances are grant-focused.	Looks for financial supporters at all levels and sees small individual donors as opportunity.
Human resources are staff focused.	Looks toward volunteers to accomplish critical tasks.

*Asset Allocation is the principle that you can create the desired outcome by configuring and controlling the inputs in a specific manner. In this mindset you analyze the inputs, the process and the variation and then implement the best possible combination to maximize your objective.*

The best way to describe this mindset is to share a quote from the Byrraju Foundation of India a nonprofit working on rural transformation:

*“It is often believed, and perhaps erroneously, that it is the inadequacy of financial resources that impedes the battle against poverty, inequity, deprivation and lack of quality basic services such as healthcare, education, drinking water and sanitation in rural India.*

*Byrraju Foundation believes, without qualification, that effective leadership and guidance can provide the platform, which can realize significant value out of even limited resources to achieve sustainable and holistic rural transformation.”*

This quote sums up the mindset of social entrepreneurs all over the world that know how to achieve change.

The other aspect of this mindset is that organizations must “*intentionally stop any activity that does not contribute significantly to positive returns on investment (ROI)*.” Eliminating activities is very difficult for nonprofits. Every organization has programs, or even departments within the organization, that drain resources. Many of these programs have been around for years and are based on incorrect assumptions about the clientele or their possible needs. Nevertheless, these programs should be cut or reduced.

One organization that works with the homeless was challenged about whether they really needed to serve lunch. “Of course we do” they responded. They were asked to find out from the clients if lunch was important to them. The drop-in shelter staff were shocked to learn that the clients came to the agency for social reasons and not for lunch. The clients said there were plenty of other places for lunch, and most had already had lunch before they arrived at this agency. This meant that 20% of the organization’s budget was being wasted. This organization is not alone: There are many organizations who have, on average, 40-60% of their program, admin and fund development assumptions proved wrong.

Not knowing what moves a mission is, from a technical standpoint, the reason most capacity building fails. How can you build capacity in a program if you assume your clients need or don’t need something and you’re wrong? Even flawless execution will produce no results. As Jim Collins in Good to Great puts it, you need to face the “brutal facts” before you can start building capacity. Even though Collins says organizations must work on developing a team first, in practice, the brutal facts bring about the team changes. As people see the writing on the wall, many leave.

Our goal in consulting is to get organizations to list 7-10 specific factors (activities/actions) that are important to do, and not to do. Yes, you read that right. We work hard to get nonprofits to recognize what they should or should not be doing. As a sector and as consultants, we need to spend more time focusing on activities that nonprofits should not expend resources on.

One of the key reasons I love drawing out an organization’s factors on a Strategy Map and comparing it to other organizations, even for-profit, is to show clients that asset allocation is a way of life for every organization. Many nonprofits believe that lack of resources is just a nonprofit sector issue. This problem may be a huge culprit in limiting the effectiveness of nonprofit capacity building. If an organization thinks it is effective only if it is doing *everything*, then there is no way we can help that organization.

We always point out that Microsoft, which has \$50 billion in the bank, could do anything it wants, but instead it chooses to only expend resources that can bring huge results. There are many things Microsoft would love to do but doesn’t. Complaining about a perceived “lack of resources” is useless. The real problem is organizational failure to learn what works and what does not work and then focus energy on what works. Again, much of the reason Microsoft limits its work is there is only so much a company, even a company with unlimited resources, can focus on.

The asset allocation mindset makes organizations get focused. Nothing is harder for an organization than to cut a program that has been part of the organization for many years, but which has been found to be ineffective. Encouraging organizations to focus only on what they do best is much easier said than done.

## II. Community Building

*Only the social sector, that is, the nongovernmental, nonprofit organization, can create what we now need, communities for citizens—and especially for the highly educated knowledge workers who increasingly dominate developed societies. One reason for this is that only nonprofit organizations can provide the enormous diversity of communities we need—from churches to professional associations, from organizations taking care of the homeless to health clubs—if there are to be freely chosen communities for everyone. The nonprofit organizations also are the only ones that can satisfy the second need of a municipality, the need for effective citizenship for its people. Only social-sector institutions can provide opportunities to be a volunteer and thus enable individuals to have both a sphere in which they are in control and a sphere in which they make a difference.*

*The twentieth century, now coming to an end, has seen an explosive growth of both government and business—especially in the developed countries. What the dawning twenty-first century needs above all is equally explosive growth of the nonprofit sector in building community in the newly dominant social environment, the city. (Managing in the Next Society, Peter F. Drucker, p. 231-232)*

Capacity building is primarily about building an empowered, self-sufficient community.

The for-profit sector builds community in common and familiar ways: a sports team builds community to support the team and build momentum to win. Religious institutions build community to more effectively win converts. Political parties need create community to influence votes.

Capacity building has often failed in nonprofit organizations because the nonprofit community does not understand what it is working toward. The previously mentioned institutions intuitively understand their goals: profit, winning, converts, votes. Nonprofits often incorrectly assume that “solving the problem” is what they should be working towards – it is not. The end goal for every nonprofit is to create a stronger community that solves its own problems. The community then is leading and implementing the needed solutions and the nonprofit plays the role of conduit for transformation.

This “conduit” theme is common among all successful organizations. For example, Southwest Airlines created multiple connecting points to meet consumer’s needs instead of following the industry-standard hub concept, which meets the airline’s needs. Grameen Bank created a community-based loan program to uplift the community instead of following the model of the U.S. AID program that meets the needs of the government. There was great mobilization in the way Dell computer led the way in partnering with vendors instead of squeezing them to create a revolutionary way to build computers. Starbucks put incredible energy into making its stores a place for community and making employees feel like they are part of something bigger than themselves. The theme also emerges through the work of great coaches, like Bill Belichick, who encouraged New England Patriots players to see the team first and individual goals second.

I have worked with one organization that puts a great deal of emphasis on mobilizing volunteers to do case management with youth. I watched them create a community with the volunteers to not only reach out to homeless youth, but develop the community in a way that allowed them to take ownership and attract volunteers themselves.

Just recently, I met with Nonprofit A, a community development organization and we created a Strategy Map. We compared them to a Nonprofit B, who is not a community development organization, but was having success in the community. The one factor that stood out between the two was the strength and ability of Nonprofit B to mobilize the community. This is such a critical point.

Nonprofit A, the “community” organization, was doing a poor job of mobilization and was not creating a big impact, yet Nonprofit B, the “non community” organization, was mobilizing community volunteers at a much higher rate and had a much lower budget. The process was interesting because the staff member at Nonprofit A kept saying how much she wished they had more resources to hire a person to mobilize. But Nonprofit B had only one employee for the whole city, but did a better job of mobilizing. I could only say, “I don’t think lack of resources is the key issue. It’s your incorrect assumption around what it takes to mobilize that is the key issue.”

Our research shows that the organizations that work at solving problems, instead of creating community, are less effective at creating long-term solutions. Many problem-solving organizations have some success, even became “models,” and actually attract increased funding because of tangible successes. However, when we look at these organizations’ long-term impact we see little change. Why can a nonprofit in Chicago lead the nation in building low-income housing, yet 20 years later there is little community change? The answer lies with the community: *It is up to communities to change themselves.* As one colleague pointed out to me, most organizations do their best fundraising during a capital campaign. The capital campaign mentality starts with mobilizing a whole community around a large project. There has been so much success around capital campaigns that some suggest one should always be happening, just to keep your community mobilized!

“One of the differences that’s always been true between the world of Apple and the world of Microsoft is that Apple is a vertically integrated company, so they can make anything from top to bottom, whatever their product is, and they can control it. That gives them the luxury of making an integrated presentation.

Microsoft has always driven an ecosystem of companies on a global basis and to create much more scale and ultimately much more diversity, but it takes a little longer to get the whole thing in gear.” Microsoft’s Craig Mundie talking about the iPhone By David E. Williams CNN

The Capacity Building report by the Urban Institute states, “They (nonprofits) enable individuals to take an active role in their communities and contribute to the overall well-being of these communities. Nonprofit organizations also provide the basis and infrastructure for forming social networks that support strong communities. Civil society requires more than linking individuals to institutions; it requires building relationships among people. In these ways, nonprofit organizations add value to community life.” <sup>ii</sup>

The report (which is good and definitely worth reading) discusses the body of research that proposes the community-based model. The article further states that of those that propose to operate with a community-based model, only 10% actually do so. In fact, most community development organizations, who state their primary purpose as “creating community,” spend all their time building buildings and creating programs. Long-term community mobilizing is just not happening. All organizations, even ones that are only online, need to create a strong community somewhere that has a life of its own which can be mobilized by the nonprofit but can and will exist even if the nonprofit does not.

The strongest currency that any organization has is its community, and not its cash. Cash is an outcome and the foundation of good community building activities. To those that are for-profit readers, your business profitability will coincide directly with your ability to create community. Why? As the information age moves to the knowledge age, people of talent will gravitate toward areas where they are respected and given worth. If your business or nonprofit or church fails to build community, you can forget about profit, donors and church attendance.

To ensure that a community building mindset permeates the organization, it is an imperative that a Level 5 leader, or at least a person who is truly willing to move in that direction, heads the organization. The nonprofit Level 5 leader puts creating community impact and mobilization over solving the problem or organizational growth. Settling for anything else will put a halt to any capacity building efforts.

One of the first things a Level 5 leader does is create the best team possible to ensure the goal of community mobilization occurs. Our observations have shown that the team implementing the program can be as important, or even more important, than the program's design itself.

It is interesting to note that most executive directors and boards we have interviewed refer to their current group of employees as "the best." However, when we begin to ask about teamwork, placement of knowledge workers, skill levels and thought diversity we get a lot of blank looks. In other cases the opposite is true, and the executive director undervalues the importance of the team assembled. One particularly memorable conversation with an executive director shows how we fail to evaluate the effectiveness of our teams, as well as their significance in the capacity building process:

"We have been approached by a large foundation to replicate our program all over the nation," the executive director told me.

Not really meaning to be insulting, I asked, "Why do they feel your program is worth replicating?"

My friend immediately became defensive. She said abruptly, "Because we do good work and are highly effective – and they can't find a better program anywhere in the nation."

I smiled at her. "Your success doesn't lie in the design of your program – what makes it successful is you and your team. And your team can't be replicated, and because of this, neither can your results."

"Thanks for the compliment, Curtis," she said. "But it's not me."

This story summarizes why the nonprofit capacity building movement has failed to meet its promises. This executive director has no problem saying, in essence, that her team has created the best program. But she is unwilling to say that it is her team that has made the difference. By deflecting praise away from her team, the executive director is misleading herself and others about why her program is so successful. Multiple wrong assumptions result.

Assembling effective teams that can create and mobilize communities (thereby supporting the over-all capacity building effort) requires a Level 5 leader, with the ability to accurately identify and analyze causal relationships. In other words, the leader must be able to see and say that a program was successful because the implementation team made it work. The leader must also be able to admit that a given program failed because the wrong team was hired.

When building community, nonprofit leaders must not forget the importance of a good team. In his book, Collins puts it like this: the first thing a new CEO does is "look for whom first, then look at what."

### **Redefining Nonprofit Scale:**

It should not surprise you that my executive director friend above who was asked to replicate her program was working with a venture philanthropy group. The Venture Philanthropy movement has made a serious error in its pushing its type of “for –profit replication scale” described above. Proponents of this type include Carl J. Schramn, President of the Kaufman Foundation. In his presentation to the Social Enterprise Alliance he explains his scale this way through a hypothetical exchange:

She (nonprofit executive) shows up (at foundation) and says, 'I run a kitchen for hungry people in X city. Between you and me, I run my kitchen better, faster, cheaper. My food's more nutritious. It is served hotter, in a cleaner environment. The people who eat it have a sense of higher dignity, and I do it at 83 cents a unit, while the average in my city is 179 cents a unit.'

This nonprofit executive comes to the foundation to ask for a grant to help the organization grow, or "go to scale," he said.

"And to go to scale means I'm going to wipe out all these other deficient kitchens that are 'my competitors,'" Mr Schramn then goes on to say this model would become replicated nation wide- city to city.<sup>iii</sup>

This is a dangerous and erroneous proposition that will set the sector back if pushed too hard. Scale does not mean replication as in the for profit sector. Scale in the nonprofit sector is the creation of infrastructure, conduit or community that creates multiple owners who are facilitated by the organization to feel like a co-owner or the problem who (clients) creates their own social network that ties into the nonprofit structure (redo sentence). This structure grows in impact not so much as businesses such as Starbucks or Wal-Mart. The nonprofit scale looks like the Grameen Bank when 40 years later a single action turns into a changed country because they created one million stakeholders and hired the right people. That is nonprofit scale.

Nonprofit scale is the ability of an organization to make the whole community the solution and that the community itself replicates issues of concern and uses the nonprofit as the conduit for growth and impact in a chaordic manner. Mr Schramn's model puts the focus on the “effective model” that sees delivery of units as ROI of x's. If efficiency (which we love) in itself were the issue than we would have better solutions today. As stated before it's the ability of the organization to create community that will directly correlate to its ability to scale its (the communities) overall impact.

### **III. Diagnostic and Action-Based Planning**

Knowing your organization's strategy, and how to achieve it, is critical for success, which is why strategic planning efforts are so important. However, many organizations spend all their energy, time and resources planning programs, instead of implementing what works. Most non-profit organizations use traditional strategic planning models that start with a dream picture of what is to be, and then work backwards developing a set of actions, inputs, resources and partners necessary to complete the mosaic. This works great on paper, but the plan rarely gets off the paper and into effective action.

The alternative to traditional strategic planning, referred to as diagnostic and action-based planning, uses two ways of increasing impact. The first way is through developing a new organizational strategy and strategic mapping and then testing it through metrics and research.



This way of diagnostic planning is about creating the Strategy Map. The purpose of the Strategy Map is to create a picture of the present reality both for the organization and for other groups in the same sector. This visual diagram is designed to give the nonprofit a clear diagnostic view of how well its current strategy is working—in the present moment. The strategy map is not a substitute for long-term planning. Rather, it serves as an adjunct, allowing an invaluable look at the present and comparing it to the future. This comparison illustrates gaps, insufficiencies, situations, synergies and opportunities that were not visible when mere lists of programs, goals and objectives are reviewed.

The Strategy Map focuses the capacity building process on key organizational success factors generated through a dynamic, integrative process, instead of a static list of un-integrated goals and objectives prioritized by whims of the plan developers and approved because of the number of votes it received in the boardroom. While traditional strategic planning has its place, it often does not support the capacity building effort directly because it does not force planners to ask, on a daily basis: Do these action steps support our key success factors or do they take away from them? Focusing energy on diagnostic planning will help any organization grow its capacity building effort by getting plans off paper and into action.

The Strategy Map process generates an initial plan in less than two hours and is an ongoing process that is dynamic and metric centric. It provides an organization-led process that is simple and fun to do, and requires minimal consulting help to learn, test, integrate and adjust. The Strategy Map creates a visual graph that makes an organization's grand strategy clear to anyone and makes strategic planning not only worthwhile, but also indispensable.

Grand strategies create movements. High performing organizations know what factors are needed to create these movements and generate the momentum to maintain a community around them. Mohammad Yunus of Grameen Bank, Michael Dell of Dell, Coach K of Duke University and Bill Hybles of Willow Creek Church are all examples of organizational leaders who had a clear, easy-to-understand grand strategy. Each of these leaders found a way to focus on what the organization did well and mobilize it into a movement. People flock to Bangladesh to see Yunus and pastors from all over the country travel to Chicago to listen to Hybles talk about building a mega church.

The problem is that most nonprofits just have a set of programs with goals and objectives. These goals and objectives tend to be very activity-based without knowledge as to whether or not these activities create significant impact. Staff put in a great deal of effort to create plans that turn into actions, but when these plans are void of the in-depth, integrated strategy necessary to mobilize people to change their communities, the actions are useless.

The second way of diagnostic planning is process improvement. Process improvement focuses on ways to improve performance while using less inputs to create equal or great results. Process improvement can be either internal or cross agency. The best known strategy improvement process is Six Sigma which will be discussed in more detail later. Six Sigma is used by nearly every Fortune 100 companies and is used now by a variation of most hospitals in the US. Finding Six Sigma outside of nonprofit hospitals and universities was next to impossible and we could only find one in India and in Iowa. While we did not find the precise use of Six Sigma we did find processes that were close in the methodology and used similar tools. The main theme of these high achieving organizations was a constant commitment to continuous process improvement in almost an obsessive way.

By participating in diagnostic and action-based planning, organizations can allocate their resources more wisely and mobilize the communities they've built into movements that have a life of their own, effectively creating capacity for the organization.

Much of the feedback on this report has come from people commenting that diagnostic planning is not possible without program evaluation already in place. I could not agree more. However, program evaluation does not have to be expensive, but it does take time to think through. This is the most important step of the process. And I have found it a huge disappointment that many nonprofits are unwilling to go through the necessary exercises and instead, settle for the ineffective status quo. A more in-depth conversation on this can be found in the special reports in the back of the paper.

#### IV. Singularity of Programming

Singularity of programming is the central focus that ties the triangle of capacity building together.

Recall the earlier example of the arts commission that integrated its four independent programs through a seasonal marketing concept to build capacity. Diagnostic and action-based planning helped the organization see, visually, how implementing the planned season concept would allow the organization to allocate its resources more efficiently and build community more effectively.

The integrated thinking that leads to singularity of programming is important because it sets the organization up for maximum marketability. And, as will be discussed later, having a marketing mindset is a key to long-term sustainability once capacity is built.

#### Capacity Building That Works: A New Approach

After reviewing the top research literature on capacity building in all sectors and comparing it to our own, ongoing consulting work at Mission Movers Group, we realized the need for a major change in the way the nonprofit sector thinks about capacity building. Our biggest ah-ha moment came when a client hired us, as an alternative to one of our competitors, and began to praise us for our superior work. It was painful to admit, but our “superior” work was not generating more impact for the client. After comparing this situation to other projects, we realized that the level of consulting means very little in capacity building. *There is only one deciding factor in capacity building, and that is the organization itself.*

The current thinking around capacity building is too consultant-centric. It's boring. It's tedious. It lacks accountability. It pushes evaluation as required activity instead making a creative solution a jewel to be found. It's report obsessive and lacks focus. Also, where we have seen some success, like in global health through the Gates Foundation, we just don't see how that **scales** to other nonprofits.

There had to be another way to build capacity through a process that is that is fun, affordable, builds evaluation into the process itself, is internally driven, is easily understandable and is ultimately valuable to all.

So we created a new process to address these needs – the needs of the client. The process that we created generates an initial plan in less than two hours and is an ongoing process that is dynamic and metric centric. It is an organization-led process that is simple and fun to do and requires minimal consulting help to learn, test, integrate and adjust. The plan creates a visual representation that makes an organization's strategy clear to anyone. We finally have a process that makes strategic planning not only worthwhile, but also indispensable. This process creates a strategy based on a dynamic, integrative process, instead of a static list of un-integrated goals and objectives approved because of the number of votes it received in the boardroom.

I have been doing strategic organizational consulting for over 20 years and like most people have never liked the “strategic planning process.” Rarely, even when I led it, did I see anything significant come out of it. But now we have created a one-page plan developed through our work

and the research from top consultants in the world. Can strategy be done on a single page? Yes! And it can be done better because it is clear and concise.

There are eight redirections or stages that a nonprofit must take to create high performance. Before this eight-stage process begins, we start by creating an initial strategy picture, or Strategy Map. This initial picture opens the door to the following eight stages organizations go through:

- 1) **Debunk Bad Assumptions** - Review organizational assumptions at a programmatic, development and administrative level. It must challenge sector-wide assumptions. Ridding your organization of incorrect assumptions is the initial stage of capacity building. You cannot create capacity or high performance on incorrect ideas.
- 2) **Move From Single View Frame** - Find incorrect assumptions and potential alternatives and reframe them to show how the organization views itself and the environment in which they work.
- 3) **Move from Level 3/4 to Level 5 Leadership** - Analyze the type of leadership within the organization. Begin the process of what Collins calls “facing the brutal facts.”
- 4) **Re-frame Organization as Mobilizer (Conduit for Transformation)** – Assist the organization to reframe its own self-concept, so it moves from identifying itself as a problem solver to identifying itself as a conduit for transformation; a community builder and mobilizer.
- 5) **Identify Significant Influencing Factors** - Develop a set of “disproportionate influencing factors.” In order to debunk incorrect and limiting assumptions, an organization must first identify the factors that influence the organization significantly one way or the other. This is where the organization begins to deal with the “brutal facts.”
- 6) **Shift from “Funding Determinism” to Asset Allocation Mindset** - Test the level of influence activities and allocate assets according to input impact on output/outcomes.
- 7) **Move From a List to a Picture** - Put it all together. Integrate 4 ,5 and 6 and create a Strategy Map. Most organizations still work from a list of goals and objectives and expect people to understand how they are integrated. High performing organizations put all actions into a highly integrated visual that makes its strategy clear to all. The goal of the grand strategy, as mapped, is to mobilize community and concentrate momentum to build community to take care of the problem.
- 8) **Shift From a Fundraising Mindset to a Marketing Mindset** - Finally the high performing nonprofit does this in a way that looks and feels like a Hollywood production. Everyone has a part. No part is unimportant. All leads to an ending that everyone feels part of the production of the play. [\[diff b/w fundraising and marketing\]](#)

Please note that while these stages are linear in writing, they are circular in nature. You will revisit each stage often and at times do all stages or many at once. While one could start anywhere, experience with this model suggests you begin with the Strategy Map. It creates a set of questions and highlights assumptions that most organizations were not even aware of.

However, for some nonprofits we begin with a process improvement project or a stated problem. Some nonprofits are not ready to move into an organizational strategy development or just feel that to get to the strategy point they need to solve an issue first. While this works fine it can bring about unnecessary and duplicative work. An example is a case at the end of this report in which we were working with a police guild and they had a series of problems to solve. When we first worked on the strategy change all of their perceived problems were solved by making the changes.

It's also important to note that during the strategy and innovation development stage, organizations can do process improvement projects and these projects will be continuous through the life of the organization. The primary purpose of the process improvement projects is the continual refinement of the strategy curve.

While the initial process we take organizations through will come together at fruition as a one-page document, we do take organizations through an intensive workbook that challenges the very core assumptions of their organization. Our process rejects the sacred cow "if we had more money we could do more" paradigm mentioned earlier. We believe it is this mindset that keeps organizations focused on activities instead of strategies.

Focusing on high impact strategy work requires a complete paradigm shift. We have already referred to this shift the "Asset Allocation" mindset. We know from research that most great leaders have this mindset. This mindset believes all the resources we need are already in the system. It is a matter of doing a more effective job of allocating these resources in a focused manner that leverages "disproportionate influencing"<sup>iv</sup> factors. By focusing internal and external organizational momentum around these factors, organizations create results that exceed comparable organizations.

The asset allocation mindset is the quintessential paradox. By focusing on the most effective use of resources, it creates value for employees, clients, donors and volunteers at such a higher rate that it begins to attract additional capital without even asking for it.

A great for-profit example of this is Starbucks. When is the last time you saw a Starbucks commercial? You haven't. They have such a powerful model of putting resource, not everywhere, but at only the exact highest, disproportionate, positive influencing areas. They use all their resources to create a satisfying experience for employees and customers and forego traditional advertising. On the nonprofit side, one new example is the previously mentioned organization KIVA. (See Appendix II) KIVA is attracting millions in capital for micro-enterprise all over the world. KIVA had a very focused model that is having huge implications by creating a greater focused experience.

There is a critical premise here. Organizations that focus first on getting more resources never really learn to use their current assets at their highest impact – and never earn the long-term process of capital attraction. On the other hand, those that are willing to look inward for better results, find ways to get more out of an equal, or less than equal, input.

Real Change in Seattle is a good example of asset allocation. After attending one of our conferences, Real Change staff went back and challenged their assumption on newspaper circulation numbers. Before the conference, staff at Real Change assumed that to increase circulation meant to increase the number of vendors. So a great deal of effort was put into recruiting new vendors. However, when crunching the numbers and not having a pre-conceived idea, they found it was really 20% of their vendors that impacted circulation. As a result, they determined that to improve circulation, they needed to improve the actions of that 20% and put less emphasis on new recruitment. This new focus will allow Real Change to focus on the disproportionate influencing factor and see higher circulation. Their new mindset has them continually assessing and not resting on any unproven assumptions.

## **Part One: Using The Strategy Map for Innovation and Planning**

We focus on the strategy map not as a problem-solving tool, such as "how to solve homelessness", but as the ultimate mobilization strategy tool. The strategy maps' primary purpose is to give organizations and their partners a clear and concise picture of what, how, and why their organization does what it does, and where it needs to focus its energy.

Getting organizations started on the process is much different than other types of strategic planning. We don't rely heavily on meetings, research, or sticker placements on flip charts. There are no meetings with staff and board and stakeholder to get information and insights to compile fancy reports. It is actually in the consultant's best interest to know little about the organizations so it can ask "stupid" questions versus provide solutions.

Instead, it's a process you experience. We provide example strategy maps that get the attention of executives and board members. They see it. The case studies are very captivating and create the "ah-ha" experience.

This is much different than the traditional approach. Picture in your mind the usual strategic planning process. The typical consultant is hired to take the organization through the usual SWOT analysis with his or her own special twist to it. During the process you re-evaluate your mission, vision, goals and objectives to make sure they all mesh up. Next the consultant takes you through the "who is our competition" exercise. Next, different committees are set up to do research on issues and ideas that have come up during this "total staff" buy-in process. Then the financial committee reviews all new plans and confers with the power-wielding development committee. When this whole process is done a very impressive document is presented to the Board of Directors for approval and then put in front of the staff for "execution" – total pun intended.

We have found that the use of the visual tool to map out a strategy improves the planning process by ten fold. The use of this tool opens the concept of strategy to nonprofits. The drawing of key factors on a piece of paper creates a set of questions that would not have happened if the picture had not been visualized. The process is invaluable in looking at the present and comparing it to the future and when comparing yourself to similar sector organizations you see chasms and situations that were not there when you only had goals and objectives to compare.

The strategy map directs planners to see the grand strategy and put the capacity building process around those big points versus a huge list of action steps that are prioritized simply by whims of the plan developers. So many times developing an evaluation program, board development or financial reporting become part of the priority list. While important issues the questions must be asked does this impact our key success factors or is it taking away from them?

Putting together the strategy map for the nonprofit does several things:

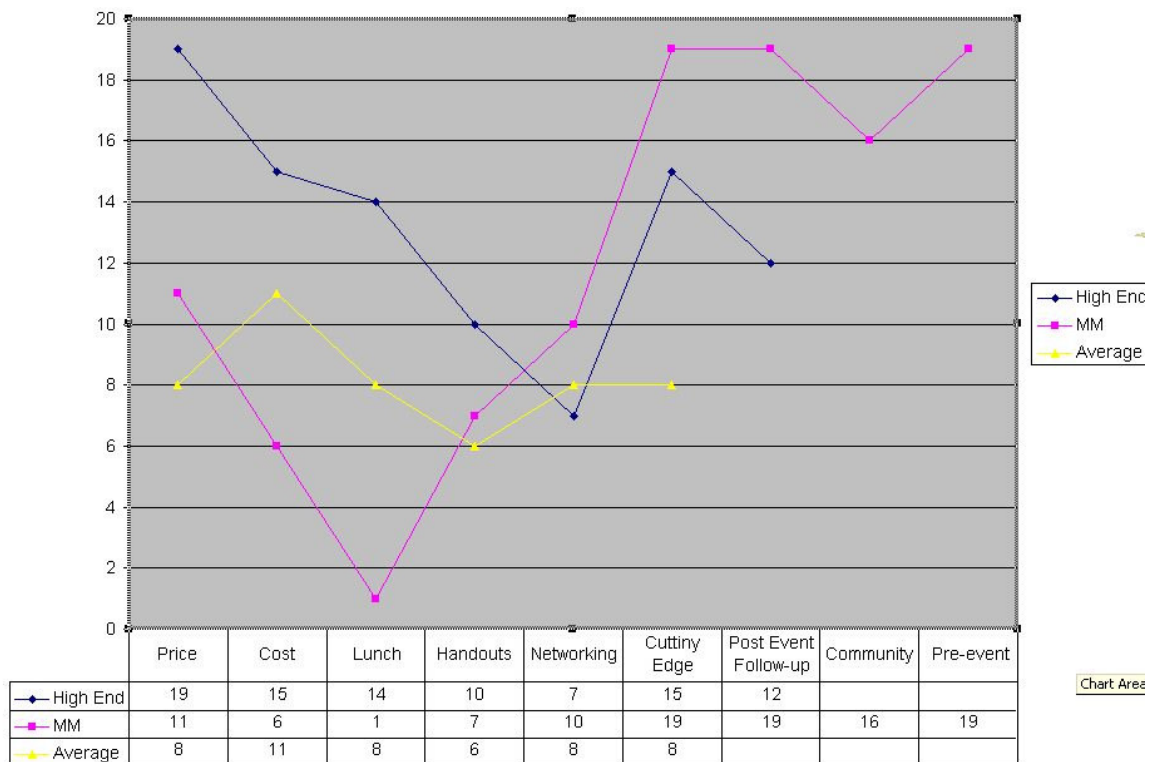
- It forces you to evaluate if what the sector is saying is important to serving clients.
- It reveals duplication in services in a profound way.
- It helps you review how you compare to funding competitors.
- It supplies you with a set of critical questions that you would have not asked otherwise.
- It puts innovation into a context of what should be innovated.
- It helps create a clear asset allocation plan.

To get the process started we first begin with a worksheet from the workbook. We ask the client to tell us about the key activities they do, activities they want to do, and activities that others are doing. We ask them to name one or two organizations they see as comparable to their work, and ask what they like and dislike about the activities of those organizations.

From this beginning discussion, an initial set of key factors are created and we graph them. We create a graph for each of the comparable organizations also (which you will see in a minute). By viewing the strategy map graph, all of a sudden questions about strategy that have never been thought of begin to bubble up. As Kim and Mauborgne have pointed out in their research, the process of diagramming an organization's primary factors provides a visual framework that is both "diagnostic and action-based." To put it this way, when people see their strategy (which most were unaware of until this process) compared to other strategies, they see their organization as it is and what needs to be done becomes clearer.

At this point we proceed by taking a look at strategy maps of a few clients, and discuss how the strategy maps are helping nonprofits focus their energy and mobilize toward mission completion.

We use the strategy map in our own business as well. Having the strategy map below keeps us more focused and we are putting out a better product than previously. Our company still has all the same ingredients, but we now know how much of each ingredient makes it work the best. Please review the Strategy Map below. We looked at the factors that make up an event. Some of the factors we saw as heavily influencing the impact, while others we saw as factors to reduce or avoid completely even if others in the sector did not.



The value curves (the graphed points that create a line) for our Mission Movers Strategy Map show three types of conferences: high-end, average cost, and Mission Mover. Each group has a different set of priorities for putting on a conference. Why is this? One assumption is that high-end organization executives like to get away to nice locations and have all of their needs met, and they believe that the high price they are paying means they are getting cutting edge information that gives them a competitive advantage.

Another assumption is that smaller nonprofits like to go to hotels too and have a nice lunch served and sit in nice breakout sessions. We also assume that people like breakout sessions, and nice big handout books full of information that they can use when they leave -- even though it will never be opened again. Our goal was to challenge all these assumptions and learn how to put on a conference that participants leave saying "that is the best conference I have been to."

What did we learn by doing the above strategy map? First, we made sure all our conferences had cutting edge material. To our surprise, while we received strong feedback for having some of the best information, people still did not rate our events very high.

Next, we recognized we were spending a lot of time and money making and serving lunch. So at the next event we had people go out to lunch on their own. We had to make sure we chose a venue where that is possible. We were surprised to find that no one ever asked why we don't offer lunch, and that they actually like taking a break off site. It also gave people a chance to process some of the cutting edge material.

We then began to question the idea of handouts. How important are they, and how do ours rate to other conferences? Again, our research turned up surprising results. Keep handouts to a minimum, no color and make them simple. We never would have asked the handouts question if the above strategy map did not ask us to compare ourselves.

This comparison spurred a set of questions that would not have been asked if it were not for the visual of the strategy map. Up to this point, much of our work had been to differentiate our events from others, but that didn't seem to make a big difference to attendees.

Next we asked what would make us completely different from other events and create great value for our attendees. We decided that we would provide pre-conference reading material so we could spend more time doing activities and less on presentation. This made a big splash with attendees but we felt it was still not enough. As I write this article we are testing post-conference follow-up on an assignment we gave all attendees. To our shock, 74% of attendees have done the homework at some level compared to our projection of just 40%.

The follow-up with nonprofits has now become part of our value curve. The next factor we plan to test in the next 60 days is adding follow-up cohorts for motivated people who want to go deeper in a group without paying high price consulting fees. We hope this value curve will set us apart from everyone else. As we went through our strategy map did you notice that the focus was not on the activity but on how we did it? That's Grand Strategy!

Creating a final Strategy Map Canvas that the whole organization can agree upon, will likely take up to 6 months. It is possible to do it in less time, but it's questionable whether or not you can confirm the factors in a shorter period of time. You can have a draft in less than 2 hours, but a final draft is months off. And in some cases, depending upon the time you spend in researching your factors, it could take well over a year. The real question is: how willing are you to face the "brutal facts" <sup>vi</sup> and question your existing assumptions.

After you have completed a strategy map, the next step is to lay out what needs to be done, which includes cutting programs to concentrate resources in others.

This process uses a mobilizing tool to help your organization succeed. Learning how to do this and developing the asset allocation mindset will transform how organizations mobilize their missions for success. For a strategy to work, evaluation must exceed the meeting and brainstorming aspects of the strategic planning process. To our knowledge, most groups work the opposite way and the process is void of strategy. (Which of course, is ironic since it's called "strategic" planning!)

From a scale position, we find that clients can be served by 10-15 hours of time and the cost can be significantly lower if the process is done with a group of nonprofits instead of one at a time.

## **Part Two of Diagnostic Planning: Process Improvement**

When we started working with a Seattle Chamber we did a quick strategy analysis and found that only minor adjustments were needed. The strategy map confirmed where they needed to be,



excepts for a few modifications. The real issues facing the Chamber were one of clear problem/opportunity definition (what the critical issues really are to getting membership up) and the execution (how they did their work).

The Chamber was doing a series of programs that were either not producing the desired impact they wanted or were very poorly designed. To deal with this we created a critical to membership matrix below.

**XY Matrix**

Project: Membership

Date: June 8 2007

DEMO

View Results

Delete

Instructions

		1	2	3	4	5	6	7	8	9	10
Output Variables (Y's)		Networking Opportunities	Vivability	Price	Communication	Community Service					
Output Ranking		8	7	4	6	10					

Input Variables (X's)		Association Table										Rank	% Rank
1	Affordability	1	2	7	8	2						118	5.67%
2	Networking	9	7	6	8	7						263	12.64%
3	Credit Card Reg	9	6	2	3	4						180	8.65%
4	Online Reg	9	3	2	2	6						173	8.32%
5	Community Service	8	8	5	9	10						294	14.13%
6	Book Listing	2	4	5	1	4						110	5.29%
7	Marketing Plan	9	6	2	2	3						164	7.88%
8	Comm Recognition	9	6	5	2	3						176	8.46%
9	Parade	2	6	2	2	3						108	5.19%
10	Lobbying	7	2	2	3	6						156	7.50%
11	Communications	9	6	2	2	4						174	8.37%
12	Access	9	6	2	2	3						164	7.88%
13													

After reviewing the matrix we see that the membership valued networking and community services as the most important aspect of membership (highest rank numbers). But, when reviewing activities only community service was done but never highlighted or played up to increase membership.

When reviewing the marketing collateral there was little mention of community service and none of networking. The new marketing collateral is designed with the primary critical factors that lead to membership value. Completing a clear value proposition is a high priority for this organization.

When we attended monthly meetings we saw little if any networking going on and got the impression that potential members would see little value in these "cliquish" meetings. The Director now walks around and does speed meetings with potential members.

Next the problem stated by the previous director was there was just not enough time to do the outreach needed to grow the membership. In researching the claim we found that 40-50% of the work being done was not providing value to what was critical or repetitive in nature. We did a process improvement evaluation on every activity in the organization. We tracked every phone call, email, mail, event, activity that went on in the organization.

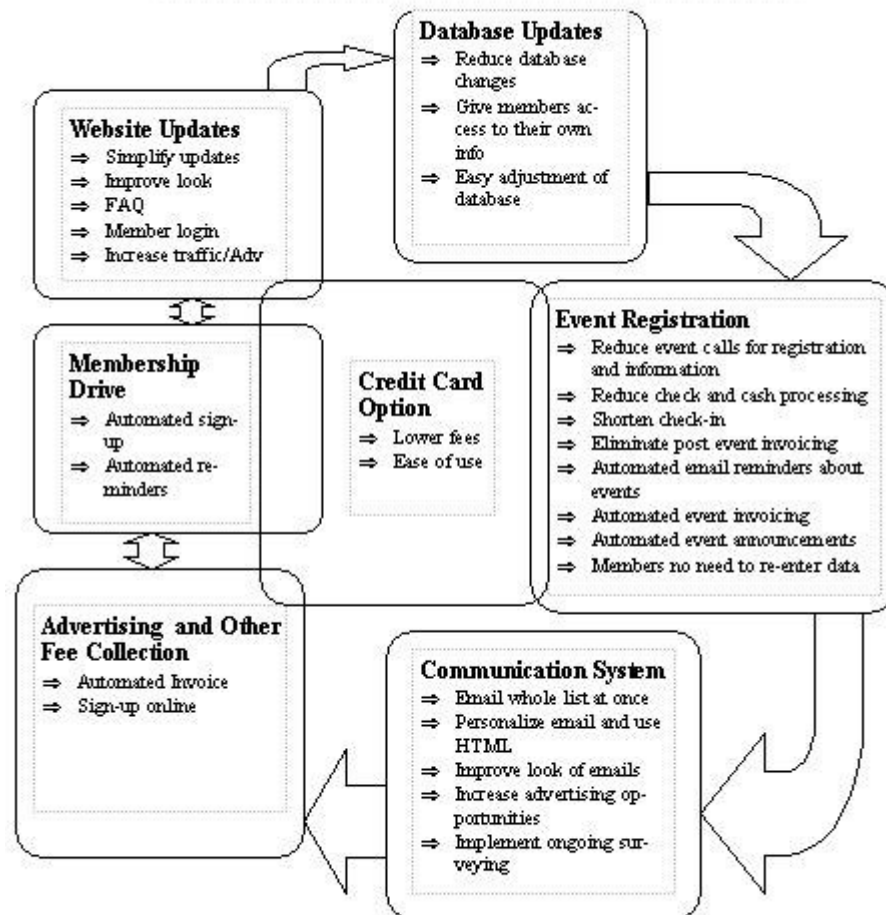


Daily Admin Log Sheet																											
	21	22	23	24	25	29	30	31	1	4	5	6	7	8	11	12	13	14	15	18	19	20	21	22	25	26	27
Mail																											
Invoice				1		1														3		0		1			
Checks			1	1		1	2		2	1											1	0					
Critical Info			2						2		1		6					4		1		0					
Junk	2		1	1					1	2	1		1	1				3		2	2	0		2	1	3	1
Phone Calls - Morn																											
24under																											
24-48	1																										
48+		?	?	3				2	2	5	7	6	2	3	1	2	2	1	1	2	1	3	1	2	0	1	1
NR								1																			
Phone Calls- Afternoon																											
24under																											
24-48	4	3																									
48+			5	3	3					6	8	5	1		3	2	2	0	1	2	0	1	3	1	1	1	2
NR																											
Phone Calls 5-9																											
Drop-ins	1		1																								
Email	on average 10-20 emails a day																										
Issue	Some calls taken can take 15-45 minutes and provide no value to membership or organization																										

The results were surprising to the board when we showed that 90% of phone calls were non-membership related to value add. It was even more surprising when they found out that the average call took 20 minutes and did not produce anything for the member only meeting the non-member callers needs (except around events). It was clear very quickly that answering the phone without a screening process was costing the organization two hours a day in non-value add work. The chart above also shows that the amount of calls each day were few and non-value adding. This is one area where a quick change could be made to save the organization time to focus on left out key drivers.

As we evaluated the different processes that the organization was doing and we saw a lot of duplication of work and tasks (see chart below) that could be automated such as membership updates, email communication, new member registration and follow-up, taking credit cards, event registration along with event notification. We were able to research tools and found an online application that would do all this for \$25 a month. The time and money saved will be in the tens of thousands of dollars. These new resources can now go elsewhere to increase impact and membership

## Innovation Through 30,000 Ft Process Review



Before process review all these activities were completed as a separate task using Access, Excel, outlook, credit card terminals and Word. By reviewing all the task and looking for overlaps in processes research was done to see if there was a way to eliminate duplication, reduce or eliminate

In the end, by reviewing all the activities of the chamber, we were able to help them re-allocate resources into other areas for greater impact without having to increase the budget.

When we do process improvement we don't follow strict rules of one methodology like Six Sigma or Hoshin. However, some groups have had big success in doing so. One group we interviewed was the Easter Seals of Iowa. They use Six Sigma to improve processes throughout the agency from programs to administrative activities. Before implementing Six Sigma Easter Seals faced \$440,000 in billing denials but through its implementation the organization was able to save \$68,000 in its first effort.

Donna Elbrecht, Executive Director of Easter Seals said that it would be a great cultural change for nonprofit to adopt Six Sigma and learn to gather data and metric, evaluate processes statistically, and work better in teams in and through different organizations<sup>vii</sup>

One of her co-workers told us "it's so great to not have decisions made on the whims of personal feelings... now decisions are all fact and data driven. It really makes a huge difference in how we operate."

Another example of using tools like Six Sigma is New York-Presbyterian Hospital which began their Six Sigma initiatives in 2003. Today they are ranked 7th in U.S. News & World Report's Best Hospitals Honor Roll. Before implementing Six Sigma they were ranked 14th. The Hospital has detailed the overview of Six Sigma at NYP. Their program, Performance Excellence, is dedicated to improving quality, efficiency and service through the execution of Six Sigma and Design for Six Sigma. Project examples included many cycle-time reduction projects (e.g., blood delivery, medication delivery, patient wait, and MRI wait), efficiency projects (e.g., outpatient transplant room utilization, inpatient efficiency, and Cardiac Cath Lab Revenue Enhancement), and use of abbreviations in medical records.

In their first year, NYP completed 130 Six Sigma projects and saw over 50 million dollars in savings. Six Sigma is continuing to grow and evolve at NYP. As a non-profit, NYP sees the quality of life as a motivator to continuously improve operations for their patients.<sup>viii</sup>

### **Process Improvement Insights**

After doing and researching process improvement project whether through Hoshin, Six Sigma, TQM or Organizational Excellence, the following five points are included in all the methodologies.

#### **Insight 1: Singularity of Program and Staff Alignment**

Make sure that the logic model, strategy curve or plan has a balanced scorecard of strategic goals and metrics, related to the highest leverage organization improvement issues. Process owners are identified through all levels of the organization and develop improvement project plans to achieve the stated outcomes.

#### **Insight 2: Face the Brutal Facts**

There is no reason in even trying to do process improvement if the people involved are afraid of what might come up during the process. Brutal facts are painful and most people avoid them. Don't be one of those people.

#### **Insight 3: Mobilize with a/your Method**

Process Improvement teams use a systematic problem-solving methodology. Make sure you know what tools are available. Please see the Rainier Chamber case to review how the process improvement was laid out before the improvement phase began. While you do not have to follow one of the "text book" types like Six Sigma for your project to succeed, you do need to lay out the process clearly so everyone knows how objectives will occur.

#### **Insight 4: Learn as You Go and Keep Going!**

Process Improvement teams use an action-learning framework to build their ability and get to desired outcomes. One of the key aspects of high quality planning is the "allowance to be wrong culture." What we mean is that diagnostic organizations will make the decision to proceed, then test and then adjust. This methodology leads to more mistakes however it also leads to finding the correct path faster than the organizations that stay with the status quo. The problem with status quo organizations is that the fear of what change might bring freezes them from getting to a better process. What these organizations, which are in the majority, fail to realize is that staying in the status quo has more risk than making changes.

#### **Insight 5: Lead for Outcomes Not Paper Reports**

Leaders actively and visibly sponsor the key improvement projects required to execute the strategy. They rigorously review projects in the context of process metrics organizational outcome goals. Process owners look at overall organizational singularities, scorecards and dashboards, their own process metrics and the status of improvement projects chartered to make improvements to ensure the overall program/process is functioning as desired.

## Sum Up

Process improvement projects, and there should be many, need to become part of everyday life at every nonprofit. The movement toward these projects will increase the impact on objectives. And when this methodology is use across multiple agencies the impact will have huge ramifications.

In the end, using the strategy curve for innovation or diagnostic tools for process improvement is not about choosing which one. You need to use both types, innovation and process improvement, to create an organization that is seen as a benchmark for others to achieve. And when this begins to occur a new love of strategic planning will be embraced. Which one do you start with? We think the strategy curve comes first. However, about a third of our clients like to start at process improvement or problem solving.

## Conclusion

Nonprofit organizations must stop acting as if they exist in a vacuum. Capacity building can only succeed when an organization breaks free from the “Funding Determinism” mindset. To have ongoing success in their capacity building efforts, nonprofit organizations must work to create a community infrastructure that is bigger than the organizations themselves.

By weaving the components of capacity building identified in this paper into a strategy that makes things happen with available resources, organizations will naturally attract capital. This is efficient market theory at work in the nonprofit sector. Thankfully, there are signs that organizations all over the world are moving in this direction. And these indications serve as the motivation behind the concepts set forth here.

This new approach to capacity building presented in this paper prepares executive directors to strive toward Level 5 leadership, mobilize community and maximize asset use so their organizations become the kinds of investments foundations seek.

Overhauling the sector will not happen overnight but the commitment to do so must. Foundations must change how they fund capacity building, and demand that organizations make cuts in other areas to spend their own money. Organizations that develop a focused capacity building approach and are successful in mobilizing communities should be rewarded with what might be called “growth” grants. Foundations need to fund success in meeting need. It's time to make hard changes. Many in the world can't wait any longer.

## Appendix I

### How a Strategy Map Helped an Arts Organization Grow

The strategy map we recently completed for the arts program of a community-based organization literally showed the organization how to integrate its multiple, low-performing programs into a single, focused effort that built capacity for the organization.

A few items really stood out when we reviewed the strategy map for this organization. The agency talked about four main points: the importance of having a planned arts season to increase community support, getting additional resources to hire a person to manage a planned season, raising more money from a facility that was draining resources, and reaching the same level of community support and involvement as a comparison organization.

The fourth goal was of most interest to us. This community arts organization admired the level of community support garnered locally by a “non-community” organization. Although the arts organization identified itself as a “community organization,” the staff felt the organization did not have effective community-mobilizing efforts in place. In this case, the process of generating a strategy map created a visual representation of the organizations problems with community mobilization which helped staff generate some highly effective solutions.

In words only, a lack of community involvement can seemed like a small issue. But when visually represented on a strategy map, the problem moves from small to large. Once the magnitude of the problem was shown visually, in glaring detail, the organization’s staff got serious about the issue and generated new ideas. They determined to commit to a planned season, which unified multiple programs and events and gave singularity to the organization’s focus.

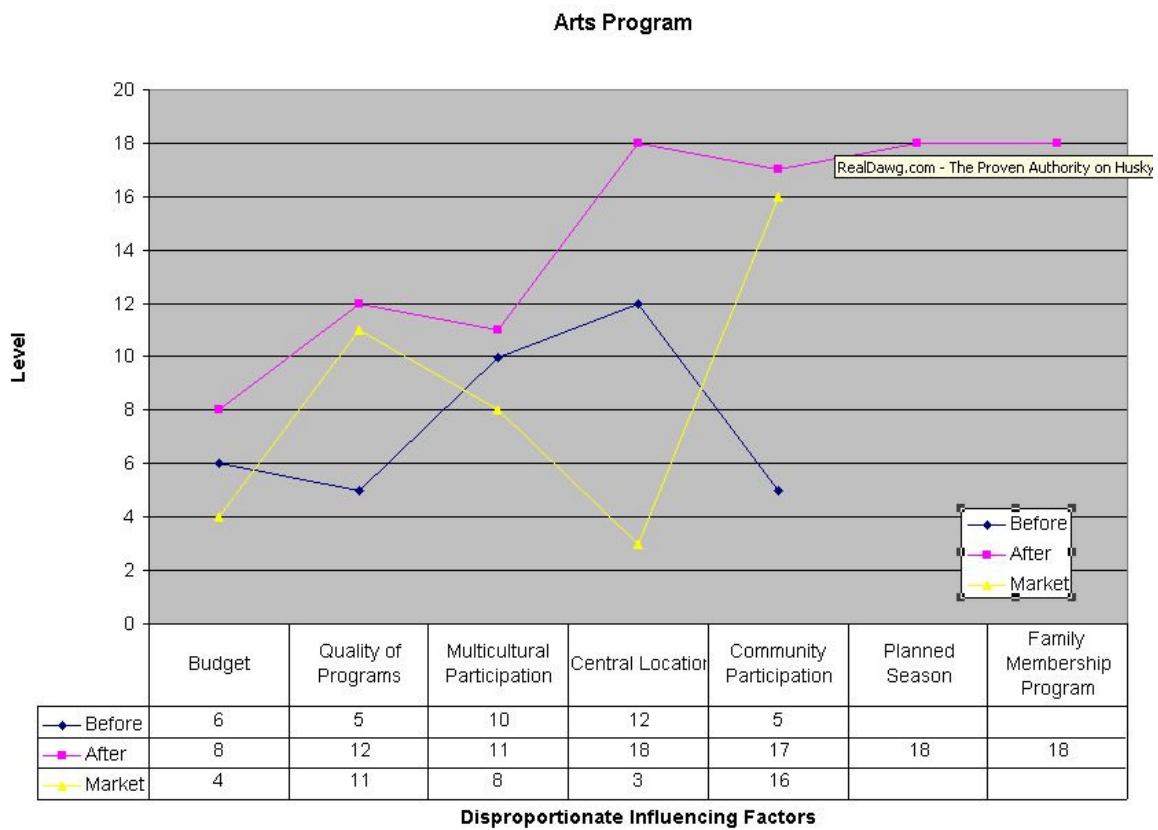
But how could this happen without initial community support? Something new had to happen. The program pulled parents from different schools together to create an after-school program that involved kids in plays. To make this work, a family membership was created that included a schedule of children’s performances throughout the year and ticket pre-purchases – just like in the traditional arts arena.

We must emphasize that, to make this work, other programs within the organization had to refocus some of their efforts—a transition that was difficult, but worth it. While the organization’s multiple programs had created good results in the past, those results had never been bigger than the sum of their parts. Once the organization decided to create a single program, and focus its efforts on a planned season, the community began to mobilize.

Just recently we adjusted the strategy map below with factor number 2 changing to “singularity of programs.” This strategy change came with the realization that the strategy of each program needed to focus on making the family membership the end goal and making each of their planned activities go within a planned season that could be sold as part of the value proposition to potential members.

In addition, the arts group made another important decision to refocus the neighborhood arts council into a committee of parents and artists to put together a program for families. The committee helped create the planned season and made sure parents became members. Money set aside for the council was not refocused for making sure parents would see value in membership and pay for it. The additional funds from this effort could hire an additional staff person in the future as the program grew. All this happened without getting the “I wish I had more resources” grant.

How did this plan come together? By hiring a new person? No! This community organization adopted the asset allocation mindset to re-tool existing programs, drop existing parts of programs, and create a new program that will reach its ultimate goal of community engagement. If this mindset had not been adopted, the organization would have assumed it did not have the resources needed to do a planned season and launch a membership program. The process of putting together a strategy map helped this organization create a growth opportunity simply by reallocating assets.



## Appendix II

### **Management by Fact vs, Management by Assumption: Creating an Initial Strategy Canvas For the Police Association Network**

Capacity building fails in nonprofit organizations and other sectors because the organizations don't know what the problems are. Many counter with, "Sure we do: lack of funding, lack of board leadership and poor access to needed resources." The real reason why capacity building fails is that organizations first and foremost don't know what their strategy is. To best describe this, let's look at a real case.

Representatives of the Police Association Network (PAN) from the southwest attended one of our Nonprofit Rules strategy conferences, and they arrived in disarray. With a list of issues in hand, they hoped to solve each one through the conference exercises. Beginning with an introduction of key principles, and delving deep into a case study on KIVA, the day was now set for the first exercise led by corporate innovation consultant Harry Thomas.

Harry, with 20 years of corporate innovation under his belt, introduced the "Tree of Opportunity" session. He showed in detail how great innovation breakthroughs happen during the "define the problem stage," and not during the actual "problem/opportunity solving process." He led the group through many eye-opening examples, then offered to work with real issues from the audience. The two staff members from PAN frantically waved their hands. Ralph, the Membership Coordinator, said with a gruff voice, "Our board does nothing. We need to fix this issue." Sarah, the Executive Director, added, "The real issue that bothers me is that no one comes to our Association meetings." The conference participants then spent 20 minutes working directly on this issue, trying to identify ways to increase member participation at Association meetings. We arrived at some data and insight as to how they might solve this problem. We identified priorities for next steps that they could directly work on in the afternoon session.

What Sarah and Ralph did not realize is that the priorities they had just set were about to be undone.

The afternoon session centered around creating an organizational strategy. For strategic planning to be successful, it must be primarily diagnostic/action-based versus goal-based. To begin, we reexamined the capacity building triangle, and began looking at the KIVA model through the use of a strategy map.

After studying the strategy curves for KIVA, the New York City Police Department, and Southwest Airlines, each team broke off by themselves to identify and list their organizations' 7-10 most critical factors—in other words, the factors that have the most significant impact on positive outcomes. The exercise is difficult at first. Listing the activities that have the most and least impact is not something agencies do often. The group from PAN created a list of six factors and had a look on their faces of "have we really chosen the right factors?"

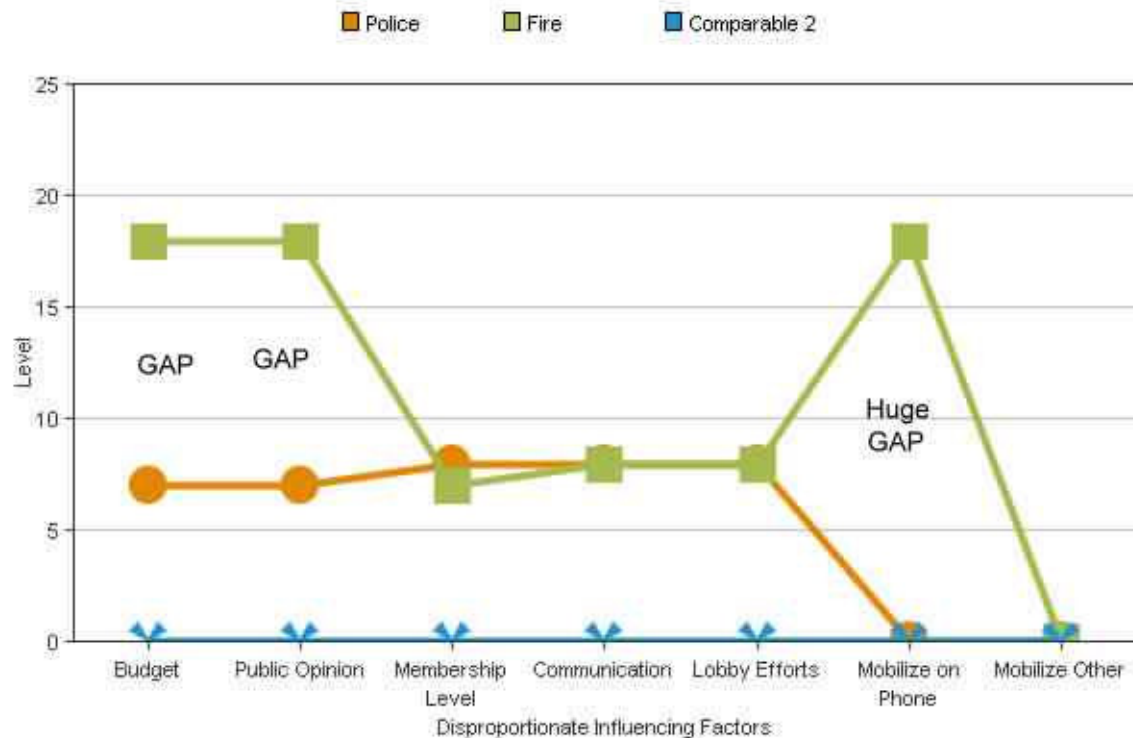
"What's on your list, Sarah?" the presenter asked. "We put public perception first and then membership size," she replied. The presenter began to draw the strategy curve based on these factors. He drew a large L on the blackboard, listing public perception followed by membership size on the bottom line of the graph.

He asked Sarah to rank each factor on a scale of 1 to 20, with 20 being highest. She identified the Fire Department as her comparable agency. She said, "The fire fighters have a great public perception and the police don't, so give the firefighters a 16 and us a 9. As far as membership goes, they have nearly 100% involvement so give them a 16 and us a 10." The presenter asked about budget. "How much larger is their budget than yours?" "A good amount," she replied.

After the first three factors were listed on the strategy canvas, the PAN staff added two additional factors: communication efforts with both associations, and lobbying efforts to increase resources from local and state government. Ralph chimed in, “I think our communication is better [than the Fire Department’s] and when it comes to lobbying we are able to convince government that we are just as important. So we are about even there.”

Finally they got to the last factor -- making donation phone calls. They said, “The firefighters have this phone call plan that raises all kinds of money, but we aren’t allowed to do it by our charter.” After further discussion, it became clear that this phone calling event mobilized the community around the fire department. It was a big deal, because it made the firefighters feel supported. But it made the police feel as if no one cared about them. The presenter pointed to the huge gap for this factor on the strategy canvas and said, “This is not about phone calls or fundraising, this gap is about lack of community mobilizing around the police. This gap is a big deal.”

With this strategy canvas on the blackboard, everyone at the conference could clearly see the gaps between both organizations. One attendee commented, “Wow, what will your board say when they see these gaps between budget, public opinion and mobilization?”

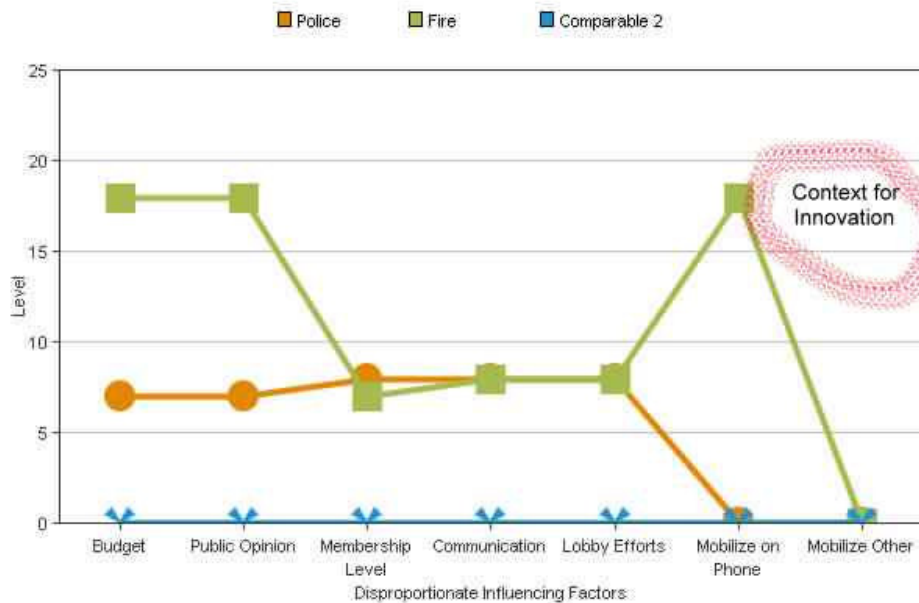


To the shock of the presenter, Sarah said, “Our board won’t say anything – they’re already aware of these gaps and feel little motivation to do anything about it. This strategy canvas hasn’t showed us anything that we didn’t know already.” This left the presenter nervous. The last thing a presenter wants to hear is that a group exercise “did not show us anything.”

Quickly looking at the canvas more time, the presenter asked Sarah and Ralph, “Do you think the officers would be motivated if they knew the community was behind them just as much as the firefighters?” Ralph and Sarah looked at each other and said, “Yes!” The presenter drew a big circle next to the firefighter association phone mobilization point on the canvas and said, “We need to create a process to mobilize the community around the police and make them feel



appreciated. If the police saw the support of the community around them, would they want to do more themselves?" Sarah and Ralph responded enthusiastically, "Yes!"



The presenter explained that if PAN were able to create a community engagement effort that showed the police how much the community cared and was willing to get behind them, that this could impact the two issues identified this morning: board apathy and lack of meeting attendance. The police association apathy is understandable when they see the firefighters get everything and they get little. If PAN can increase significantly community mobilization around the police, then the other problems would eventually be solved also.

The whole audience turned toward Sarah and Ralph and waited for their response. They both looked surprised that they hadn't come up with this idea before. But it wasn't until they saw the picture of the strategy canvas that it became crystal clear, and they knew they had finally gotten the answers that they hoped to get when they arrived at the conference that morning. When Sarah and Ralph left the meeting, they knew they had only one thing to work on -- create some type of process or event that would mobilize the community around the police. Did they need to bring in a board consultant to deal with apathy? No! Did they need to work on improving the association meetings? No! Not until they dealt with the major issue first. There is a good chance that board participation and meeting attendance will improve once the police feel supported by the community.

### Context for Innovation

The strategy map canvas created a picture that showed both the industry benchmark of the Fire Association and the huge gap in community mobilization that the Police Association was failing to incorporate. Should the police copy the fire department and add a phone-a-thon to their strategy? No, that would put the fire department in direct competition with the police department, and that is not in the best interest of either party. In the end, the best practice is mobilizing the community around the police. And the police could very well come up with a plan that is just as successful, or more successful, than the firefighters.

The strategy map is an important strategy tool because it provides visual access. The picture is easy to analyze, and creates a snapshot of understanding about the differences in strategies between comparable organizations. Seeing the gaps on the curve, helps draw out information

that might remain hidden otherwise, and forces our brains are to process information differently and reframe what the issues really are.

The strategy map picture starts a process of evaluating the factors that influence the level of impact the organization creates. This new focus on “management by fact” over “management by assumption” changes everything. A picture is worth a thousand words, and when strategy maps are done right, the pictures they create serve as indispensable starting points.

Since Mission Movers Group began using the strategy map/canvas tool, we have observed an astonishing success rate in capacity building and other areas of organizational change. Organizations comment to us that more questions come forward from this process, that different data collection ideas are identified, and that a clear focus on the primary challenges facing the organization is easier to achieve. The most fascinating comments we hear come from attendees at our conferences who suddenly realize that dealing with the primary factors first can automatically solve secondary issues, such as ineffective boards or poor meeting attendance.

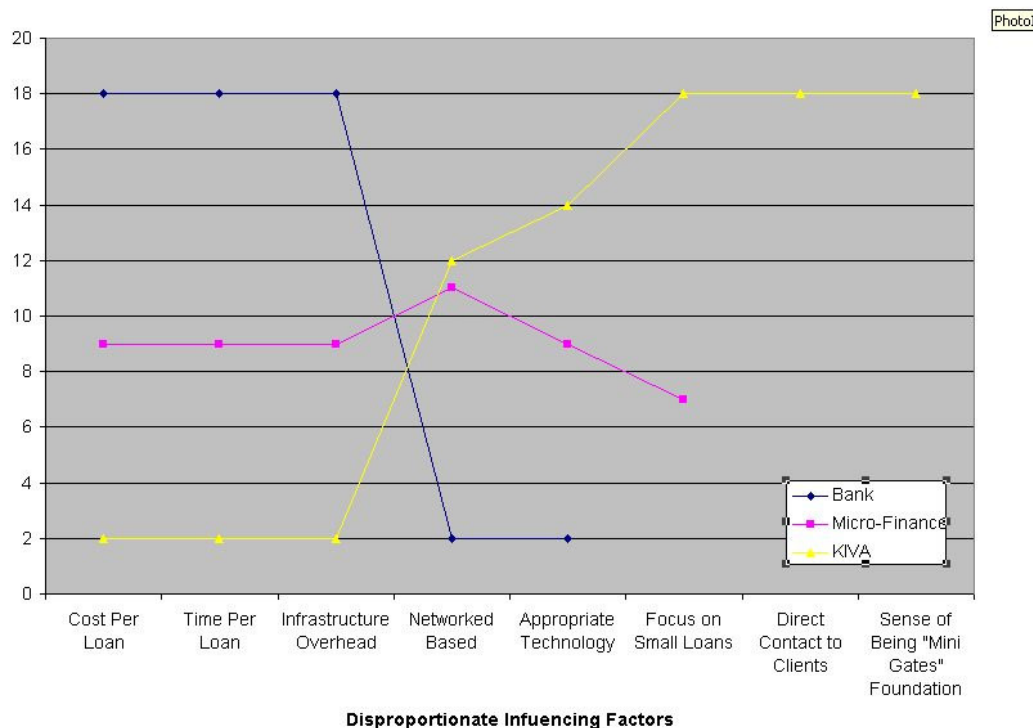
In the end, lack of innovation is not the problem nonprofits face, it's creating in the proper context that creates breakthrough results.

### Appendix III

#### How KIVA Re-Framed its Way to Capacity Building Success

My favorite strategy map is from a San Francisco nonprofit that is taking the world by storm. KIVA offers people from all over the world the opportunity to make micro-loans to poor people in developing countries who want to start their own businesses. KIVA's model of client-direct contact and direct support is nothing less than paradigm busting. The strategy map canvas below gives insight into an organization that has clear, concise, disproportionate influencing factors that leverage off each other and their partners' factors.

The KIVA Strategy



The very first time I heard about KIVA, I was so taken by their model that I quickly pulled out a scratch piece of paper and drew a strategy map to better understand it. I was fascinated, in part, because I have an MBA in economic development, and microfinance is something I've been studying since the mid-80's. To make sense of what KIVA was doing, I looked at KIVA's strategy versus Microfinance Institutions (MFI), and compared both to banks.

I have to be honest, as someone who started with a career in the inner city of Chicago recruiting banks to do more business lending, I have always been angry with banks for not making more loans. They always told me "they were too expensive to do." I never believed them. However, after doing the strategy map above, I can put 20 years of anger to rest.

When I looked at KIVA's model of loan cost, loan time, and overhead, I quickly gave grace to the banks and saw how I was wrong. The strategy map showed me that banks weren't lying to me. Their strategy is not set to do small loans. I had not seen that until I did the canvas.

The canvas also showed how giving people the sense of being a "mini Gates Foundation" accelerated the amount of capital available to these small businesses. The KIVA model turns the traditional donor pyramid upside down. Small donors/loaners/investors are the focus, and scale is an option in donor development if the experience is there.

KIVA is an excellent example of how re-framing a business model can help build capacity. If the KIVA model captures your imagination, we invite you to read a more detailed case study, entitled, "Destruction Equals Production: The KIVA Case Study," available at the Mission Movers Group [www.missionmovers.org](http://www.missionmovers.org) website..

## Appendix IV

### The New Evaluation Equation:

$$Y = f(x) + c + \epsilon$$

There is a little more to the process of completing and leveraging an organization's final strategy canvas than the main body of this white paper may suggest. To truly finalize the strategy curve, a complete review of all the factors that go into an agency's program must be evaluated. In our conferences we allude to this, but we do not delve into the complexity of the issue.

Moving an organization from "management by assumption" to "management by fact" is a painful and time-consuming process, but it is not rocket science. To face the "brutal facts," organizations need to realize that somewhere between 40%-60% of the activities they engage in provide little or nothing to the return on outcomes.

That's where program evaluation comes in. Somewhere along the way, nonprofit program evaluation and evaluation in general came to be regarded as a necessary evil that should be avoided. And there are good reasons for this. Sometimes the chosen evaluation process provides little insight. For example, the metrics required don't improve services and are only helpful for the government and funders. In some cases the metrics themselves seemed to be more important than the people being served. Often, the data collection processes collect poor data. And, so many times, the term "program evaluation" is synonymous with needing a Ph.D., which many front line workers resent.

The bottom line is that without appropriate, quality input metrics and a clear idea of what the output needs to be, nonprofits will tend to avoid evaluation ... and rightly so. However, with the advent of proven concepts like Six Sigma and Balanced Scorecard that have the dramatic effect of improving organizational impact, the future of nonprofit organizational evaluation may be at the beginning of a rebirth.

After extensive research and using our own techniques, we created a new evaluation model equation:  $Y = f(x) + c + \epsilon$ . The base of this equation,  $Y = f(x) + \epsilon$ , comes from the powerful diagnostic planning method of Six Sigma. While this method is powerful, it is very profit focused. But the primary concept transcends sectors. For the nonprofit, the equation breaks out like this:

**Y** equals the desired output.

**$f(x)$**  represents all the inputs, processes or people to get to the desired **Y**.

**"c"** is for the client. Including "c" is critical in the basic equation because clients' changing needs have an effect on the organization's overall output. For example, a person's genetic makeup or internal motivation to sobriety may play a bigger role in the success of certain rehab services than the actual services themselves. Furthermore, a child's background, his home environment and his individual learning style bring a huge part of the puzzle together in creating a fact-driven continuum-of-care program.

**$\epsilon$** , the symbol epsilon, tracks everything the organization cannot control, like changes in policies or disasters.

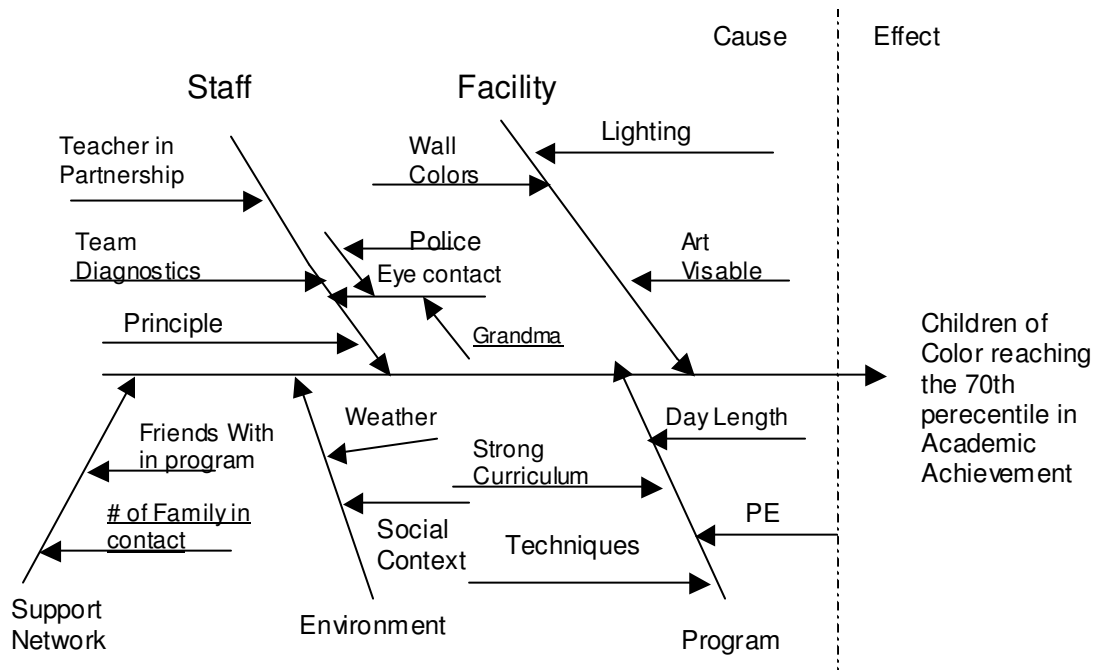
After looking at numerous options for finding the causes or inputs to get the output, Y, we found three simple tools to try to decipher the  $f(x)$  to Y.

## Cause and Effect on Y Diagram

The cause and effect diagram is used as an exhaustive diagnostic tool to review all the current and potential inputs that will affect the Y output. Causes are arranged according to their level of detail, resulting in a depiction of relationships among events, resources and processes. This process helps organizations find key factors and root causes, identify areas where there may be problems, determine where data is needed and compare the relative importance of each input.

Causes in a cause & effect diagram are frequently arranged into four to five categories. One of these categories should also be the client. In the nonprofit sector the client brings so much to the table that the type of “c” may have a dramatic impact on the inputs and program processes, the f(x).

The next step is to decide how to categorize the causes. There are two basic methods: A) by function, or B) by process sequence. The most frequent approach is to categorize by function.



For the sake of simplicity, the example above represents just a portion of what this organization needed to do to achieve its desired end result. However, it is worthy to note that the organization that generated this diagram was surprised to discover how important tap touching, eye contact, team diagnostics and strong partnerships with outside organizations were to decreasing the achievement gap. Issues like money, resources and curriculum played a much smaller role than many would have guessed.

## Evaluation Matrix

The matrix concept can be used both as a stand-alone tool or as a way to evaluate the above cause and effect diagram. The observation matrix below is an oversimplification of a real model that may have as many as 12-15 variables being tracked that include both x's and c's.

Observation Evaluation Matrix					
Obs #	H/J (C <sub>1</sub> )	Avg Hrs X <sub>2</sub>	Case Wrk x <sub>3</sub>	Social Network C <sub>2</sub>	Y= Clients past one year
1	4/5	5.3	Tom	6	22
2	4/5	5.6	Latitia	7	16
3	4/5	4.2	Betty	6	14
4	5/5	6.2	Roger	7	19
5	5/5	4.9	Jen	6	18

After looking at the observable data it seems pretty clear that Betty should be fired. Right? The data seems clear that her clients fail to do as well as others. Fortunately for Betty, this organization no longer works by management by assumption so they dug deeper for a root cause and looked for more data. What they found out was that Betty had double the caseload of other counselors and that her obsession with helping others kept the quality of her work down. In contrast, the caseload of other counselors could be increased. How did they know that? They kept testing Betty's caseload until it got to the point to where it was where they needed the output Y to be. This created a new benchmark for what other case managers were expected to reach. And they continued to track the inputs in a way that increased Y, the output, while ensuring burnout did not become an issue.

Observing data is a critical function of the nonprofit. And it is even more critical to get to know what your organization is capable of. In this case, the organization didn't know what type of caseload the case managers were capable of managing. In many places, case manger loads are too high and leaders are afraid to cut loads even at the expense of quality to clients. In other places, case managers get away with low loads. Organizations must continue to collect data in order to understand what the medium is and know the limits of variation. There are always multiple root causes to any outcome and some form of regression analysis will be needed to ensure causation is demonstrated by the data.

## Gradual Breakthrough Process

Too many nonprofits try to get it right or perfect the first time. Getting it right never happens at first. Getting it wrong is very much part of developing a powerful breakthrough strategy. Muhammad Yunus talks at length about the number of errors that Grameen Bank made in the early days, but now it has a model that nearly returns 100% of all loans with a profit. Making mistakes and gradual improvements are part of the risk and reward in creating breakthrough strategies that change the world.

And when you create change this opens the organization up to new data. Using insufficient tools to collect data can send signals that are incorrect, at times, due to incomplete data or other factors. It is important for nonprofit leaders to help staff understand that no program can succeed without the continuous capture of quality data and evaluation refinement. Capacity building and other types of organizational change happen successfully through a gradual breakthrough process.

### **Acceptable Variation = Perfection**

Building “the perfect program” is not possible, but achieving an acceptable and consistent variation in services that never goes outside certain parameters is. This is what nonprofits need to work toward. Find out what standard of service is possible and what variance of service the client will experience as perfection and develop a process that never goes outside of these boundaries. Consistency is the key. Making sure everyone knows what constitutes acceptable variance, and developing a process to ensure that everyone works toward maintaining acceptable variance is a critical component of capacity building

### **Conclusion: Work Smarter, Not Harder**

Nonprofits already work hard, so working harder is not a solution. We have seen that spending more is also not a solution and will not be a solution until organizations work smarter. Organizations need to adopt the 80/20 rule which means that 20% of the actions produce 80% of the desired outcomes. This means that once organizations work toward this rule and operate smarter, the addition of resources can have a geometric impact. Working smarter means looking for cause and effect based on facts and data that will improve processes and create great teams.

## It's the Input Dummy

We all remember the '92 election when President Clinton went around preaching "it's the economy stupid." I feel that such a simple message is needed in the nonprofit community today. The difference is that message is not about outcomes which everyone is talking about it's about inputs. In the end the real issue that nonprofits need to know is what specifically they do that works, what is somewhat effective and what does nothing at all. What are inputs? Well they are not activities like tutoring, housing or feeding. Inputs are how, why, and where we do the "what." Inputs are also the client's skill and attitude set. By this point, I usually lose people. Let me start with a simple story and progress.

I just finished coaching my son's basketball team. Part of coaching is teaching to shoot the ball. We know what goes into a good shot: placement of elbow; follow through, fingertip touch of ball, eye concentration, relaxation, rhythm and confidence. I know what the inputs are. I do not even worry about evaluating how many shots he is making now. I only focus on how well he does the inputs. During this process my son complained that he was missing the ball more with the new shot I was teaching him. I told him the present outcomes would be worse until we got the inputs all right- then he would make more. He complained for months. Today he makes more shots than ever and understands that outcomes can't be evaluated until the inputs are right first.

The Tiger Woods story is the same. Tiger was already set to win more Majors than any other golfer has ever won. He was already known as the greatest golfer ever. With outcomes like this one would say just keep perfecting your present swing. Not Tiger. Tiger shocked the world by overhauling his swing. After the first few tournaments Tiger was terrible and all the experts said "we told you to leave your swing alone." Then it happened all of his new inputs were perfected and the new Tiger was better. With his new swing he went on to win more big events and millions. What does Tiger do next? He looks at the inputs of his swing and says "I can make this better." The golf world was in shock and said "this time he has gone too far." You know the story. At first he struggles, everyone says he should have left it alone, and then he becomes even more dominant. Great people are always looking to improve the inputs and because of this great outcomes happen.

Another example of outcome focused program is one we have all tried and that is diet plan. "Our plan reduces this % of weight in this period of time" diet plans say. Diet plans fail to prepare people for the inputs and most importantly, plans fail because they do not connect to what we call the "C" factor. Some people respond to low carb diets some don't. Some respond to low-fat diets others don't. The key variable to a diet is not the program or even the plans inputs – it's the make up of the participant – their genetics, mindset and physical condition all play a bigger role than the plan. Yet I have yet to see one plan say that. The outcome based person asks "which diet works best" and the input based person asks "which diet will work best for me." One diet program does not fit all and one quality program does not work for everyone. It may be that the most important input to evaluate is the client itself. All others are secondary. The lack of regression analysis in this area is shocking.

Many understand these stories, but fail to see how this transfers to organizations and nonprofits.

Teach for America is already recognized as one of the top nonprofits in the US yet it is doing an in-depth study on what makes a successful teacher. It already hires the best and has one of the best insights into quality teaching in the nation. Do they rest on this? No! They are expending a good deal of resources to determine the inputs so they can do a better job.

"Summer S" reviews new employees for the first 90 days to ensure that they have the specific skill set to carry out its mission. If you don't have the right inputs you will be asked to leave. Great organizations understand that proven inputs create leveraged outputs. We have an email



from a person let go from this organization and it was quite revealing in how this first 90 days went and the process of determining if the person is kept on or not.

Are you seeing a pattern? Jim Collins in *Good to Great* saw this same pattern in all great organizations in what he called the “Culture of Discipline.” He talked about how athletes would rinse the cottage cheese to maximize the impact of the input. People who strive for great outcomes put obsessive attention on the input drivers that make the difference.

Check link: <http://www.foundationnews.org/CME/article.cfm?ID=2489>

### **Back to the Equation**

The key to the equation is knowing that outcomes are not something we control. The equation also teaches us that the client is not something we control. What is the only thing a nonprofit organization controls? Its inputs. When working with an organization we look at the desired outputs and outcomes we want, but 90% of effort goes into finding input drivers.

Our Input driver methodology also puts a stronger emphasis on organizational culture than any nonprofit report I have ever read. We believe how something is done, including staff personalities, plays a huge role in program outcomes; thus we find replication difficult at best and impossible at worst.

The power of the Grameen bank model is not that it's profitable, but that we know that inputs is what makes it profitable. Yunus taught us.  $Y=fx+c+e$

Y= banking system that is self supportive that empowers the poor

C= Women who prioritize repaying loan over feeding family

X= Hiring educated people who do not come from well to do families

Hiring people who can adapt and challenge him

Creating community accountability through loan process

Finally my real problem with output evaluation is that its present oriented versus long-term process oriented toward a breakthrough strategy. As Sam Walton said “it took 40 years for Wal Mart to become an overnight success.”

Remember when we talk about inputs we are not talking about just anything. We are talking about the inputs that make a difference and how they do it. Money is an input that we all think is important, however it's how you use that money that really matters. So the input driver is not the money, but specifically how the money is used. As we like to say its not the “what” it's the “how.” Input drivers are the Hows.

Life and organizations are about inputs and process, not about outcomes. Outcomes are the result of the latter plus the uncontrollable. Great orgs set out for great outcomes but put all their energy into inputs, process and managing the uncontrollable.

In the end, we all know that outcomes is all that matters. There is no debate there. However, on all issues we are in the beginning not the end. We do not know how to deal with the issues before us or we do but have failed on the execution front. When it comes to investing in nonprofits I am looking for groups that may not have the outcomes I want YET have put together the input drivers or process to make them happen. Thirty years ago none of you would have invested in Grameen, but today it would have been the best social investment ever – like buying Microsoft at the IPO. Just like today, while outcomes should not be ignored, it is the process of input drivers that a nonprofit is creating that I look for. The actual outcomes are secondary.

Outcomes follow quality process and team. The funny thing is that while this seems so counter intuitive to people, it is what they do everyday. They ask questions like, “do I pay a premium on this better product or do I buy a cheaper one that meets my needs’ Or, “do I pay this person who will do a better job today (more outcomes) and always be at risk of leaving or do I hire the newer person with great raw skill, but less experience who may stay longer.” We live and operate in a world of horse trading input drivers all the time. We just fail to recognize this.

### **Benchmarks Versus Best Practices**

Again, we stand in a small crowd in our disdain for best practices. We tell our clients about what is possible and what others have achieved and we use them as opportunities, entitlements or benchmarks – something to achieve. However, we never look to copy anything because most nonprofits have failed to give us enough info on the inputs to know why it is successful. Most often they say it’s the program design – it rarely is. Typically the program has one to three inputs that they may or may not realize, that has a disproportionate impact on the outcome. For some reason it is assumed that the whole program is what is working and then its time to replicate.

### **Make Sure Y is Correct**

I just got off the phone with a large senior service nonprofit executive who was at a conference where I spoke. They now see that much of what they do can be cut and that they need to do a major refocus. I am asking them to do a mini case because their situation is a clear example of failing to use this equation but from a different angle. He said “I now realize that by looking at our programs from a different frame that a large portion of the activities we provide would be self organized by our clients if we did not do it... we have been spending time doing activities for people who can do it for themselves..... It’s not that we are going to make major changes but it is going to impact how we allocate our resources and we now need to look at who really needs our services and how do we serve them..... this is a big change for us.....” I asked “How did you come to these conclusions”? The director responded “We did some high level research and intense surveying.”

Up to this point we implied that the real issue for nonprofits is evaluating the actual input drivers both the “x” and the “c” to see its real impact on the Y. The above shows that x was impacting y and was evaluated as being a good program serving high numbers of seniors with great execution and satisfaction. However, nonprofits need to do a much better job of defining what y actually needs (versus assumes to be). In this case a day drop-in lunch was not a critical factor that needed solving. In addition it could be argued that the very activity may have taken away from the ownership of the clients themselves and may be slightly devaluing.

Finding out what is Critical to Clients (CTC’s) is a priority for any organization. When our company did an assessment of a local Chamber of Commerce we wanted to determine first what were the outcomes (Y) that were most critical to the membership. To do this we did an intense study of needs of the membership through surveying and comparing this to the activities of the chamber and the correlation. To do this we used the Quality Function Deployment (QFD) Matrix. The QFD helps develop criteria or Critical-To-Quality issues into a prioritized set of improvement opportunities helping to focus on the correct processes, services, opportunities or strategies.

What we found both confirmed and surprised us. The matrix showed us the community services were the highest priority yet none of the marketing collateral really mentioned it. Networking was next, but little was done to focus on this. In this case poor definition of the Y doesn’t even allow you to get to the proper mixes of x’s.

### **Define the Problem**

Why did the Senior center have a poorly defined “Y” or outcome in the first place? It’s because they did not spend enough time defining the problem. When Einstein dealt with problems he

always reframed his problems in as many different scenarios as possible. He was once confronted with the concept of a huge comet that would hit and totally destroy the earth in one hour. He was asked how he would solve this. Einstein said he would spend 55 minutes figuring out how to formulate the question and 5 minutes solving it.

While finding the right mix of input drivers is 95% of your daily energy this part of the process should not start without first spending a good deal of time defining the problem or opportunity. Making sure you have the right Y will save you from a lot of wasted time and resources and failed outcomes.

### **Conclusion**

If your inputs are not creating the outputs you want to reach your ultimate outcomes then its time to evaluate your inputs. If your inputs are effective in creating the output you want but your outcomes are not happening then you need to redefine your outputs and the problems you are defining.

## **Board Development: Why It's Critical and Why its Not**

Board Development is a framework that is good for an organization like laws are good for a society. Good laws balance freedom and accountability to allow for growth but are not the cause. The same is true for board governance – when it's good it allows and maybe even encourages capacity growth but is in no way even an occasional driver. Our research shows that only organizations under 1 million see any real income impact from board growth. Digging down deeper we see that any addition of an influencer in small orgs increases revenue not just board members. The real driver is mobilization of the community; it just happens to be in some cases that the people mobilized are also board members. This correlation does not denote causation.

The board has only one purpose according to Jack and Suzy Welch and it's a big one: Hire, Fire and Challenge the Executive Director and get out of the way. The real reason capacity building does not happen is because this rule is not being followed. If ineffective ED's were being removed and organizations consolidated a level of effectiveness would organically emerge in the sector. For more information on Boards please read our other report and listen to the interview with Jack and Suzy Welch on our website. It really is worth your time.

## **Your Invitation to Partnership**

This document is a rough draft. This paper is the second rendition and may have some errors. The arguments in some areas need building out and can be better presented. There are also some ideas that are presented in a way to invoke thought. Please respond with helpful input to make this document better. Tough constructive criticism will be deeply appreciated.

The information provided in this white paper was carefully researched and is based on more than 20 years of work. It integrates the ideas of some of the very best experts in Organizational Development today. However, we in no way believe that this is the end of the discussion. It is just the beginning. We have set up a website [www.missionmovers.com](http://www.missionmovers.com) to gather your thoughts on the concepts, tools and examples set forth in this report. At the website please review the alpha of a nonprofit evaluation tool and try creating your own strategy canvass. We look forward to your insights. To contact me directly email me at [cutis@missionmovers.com](mailto:cutis@missionmovers.com) or call me at 206-760-1774. Thank you in advance

## Glossary of Words and Concepts

**Balanced Scorecard** - This concept focuses on an organization's Input/output drivers like program service, operational efficiency and financial performance to a set of defined metrics. Organizations record and analyze these metrics to help determine if they're achieving goals. A Balanced Scorecard is operated and executed at all levels of an organization. This means that each member of the organization works from his or her personal Scorecard, working on personal objectives based on and aligned to the organizational strategy.

### DMAIC

DMAIC is the primary way Six Sigma is carried out in most organizations today. This acronym refers to a fact/data driven strategy for improving outcomes in processes. Each step in the DMAIC Process is required to develop the best possible results. The process steps include:

**Define** the Client or Donor, their Critical to Quality (CTQ) issues, and the Core Organizational Process involved.

- ☐ Define who the clients/donors are, what their requirements are for services, and what their expectations are
- ☐ Define process improvement boundaries and the stop and start of the process
- ☐ Define the process to be improved by mapping the process flow

**Measure** the performance of the Core Organization Process involved.

- ☐ Develop a data collection plan for the process
- ☐ Collect data from many sources to determine types of issues and metrics
- ☐ Compare to survey results to determine shortfall

**Analyze** the data collected and process map to determine root causes of problems in programs and donor strategy and opportunities for improvement.

- ☐ Identify gaps between current performance and goal performance
- ☐ Prioritize opportunities to increase outcomes
- ☐ Identify reasons for variation

**Improve** the target process by designing creative solutions to fix and prevent problems.

- ☐ Create innovative solutions using technology and discipline
- ☐ Develop and deploy implementation plan

**Control** the improvements to keep the process on the new course.

- ☐ Prevent reverting back
- ☐ Require the development, documentation and implementation of an ongoing monitoring plan
- ☐ Institutionalize the improvements through the modification of systems and structures (staffing, training, incentives) Input on this from *GE's DMAIC Approach*, <http://www.ge.com/capital/vendor/dmaic.htm>

### Hoshin

The *Hoshin* process is, first of all, a systematic planning methodology for defining long-range key entity objectives. These are breakthrough objectives that typically extend two to five years with little change. Second, the *Hoshin* process does not lose sight of the day-to-day "business fundamental" measures required to run the business successfully. This two-pronged approach

provides an extended period of time for the organization to focus its breakthrough effort while continuously improving key business processes day to day.

*Hoshin* ensures that everyone in the organization is working toward the same end. The plan is hierarchical, cascading down through the organization and to key business-process owners. Ownership of the supporting strategies is clearly identified with measures at the appropriate level or process owner within the organization.

**Six Sigma** - is a process that creates the ability to produce output within specification. Six Sigma's implicit goal is to improve all processes to a higher level of quality.

### **Lean Six Sigma**

Lean Six Sigma is a process improvement methodology that allows organizations to eliminate non-value added steps while increasing quality and decreasing cost. Many organizations have achieved millions of dollars in cost savings while improving organizational efficiency and effectiveness with an end result of improving client and donor satisfaction.

Developing performance measures is frequently cited as one of the most difficult jobs a nonprofit manager can face. Numerous obstacles exist, from obtaining all of the stakeholder input to measuring what truly "matters," rather than what is easy to count. In order to maximize the level program outcomes organizations must measure by the impact of input drivers on outcomes and not process.

### **Organizational Excellence**

This is the process of determining the proven set of critical services needed to achieve objects and how to provide them at the lowest cost possible. This process eliminates services, resource or programs that do not lend to high correlation of impact on outcomes.

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## End Notes

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<sup>i</sup> Byrraju Foundation website:

<http://www.byrrajufoundation.org/virtualleadership.htm>

<sup>ii</sup> Building Capacity in Nonprofit Organizations, Urban Institute

<sup>iii</sup> Social Entrepreneurs Challenged to Become 'Economic Entrepreneurs', Wallace, Nicole, *Chronicles of Philanthropy* April 23, 2007

<sup>iv</sup> Kim, W. Chan, Renée Mauborgne, *Blue ocean strategy : how to create uncontested market space and make the competition irrelevant*. Boston, Mass. : Harvard Business School Press, c2005. This phrase of "disproportionate influencing factors" is used throughout the Blue Ocean book and credit for the words should be given to the authors. We have been using the term "the best maximizes ROI" well before the writing of their book we wanted to make sure we gave them credit for their very useful terminology.

<sup>v</sup> Pg 25 Blue Ocean

<sup>vi</sup> Collins, Jim, *Good to Great: Why Some Companies Make the Leap...and Others Don't*. New York: HarperBusiness, 2001. The term "Brutal Facts" is a central theme in the book *Good to Great* by Jim Collins. According to Collins, only organizations that are willing to look at why they "suck" are capable of becoming great organization. Collins sees that only groups that go through this process can get to the capacity building phase. We highly recommend his section on the Brutal Facts. You can also go to our website and see an interview done by Charlie Rose. It is a powerful interview that is still the number one selling video for the Charlie Rose show. Go to [www.nonprofitrules.wetpaint.com](http://www.nonprofitrules.wetpaint.com) to listen to the interview

<sup>vii</sup> Easter Seals Takes a New Approach to Doing Buinesss, Erin Moran

<sup>viii</sup> [NewYork-Presbyterian Hospital Partners With GE Medical Systems To Deliver Excellence In Patient Care And Performance](#), GE Healthcare, September 8, 2003